★ HOW LONG WILL SUMMER RALLY LAST? ★

The MAGAZINE of WALL STREET

and BUSINESS ANALYST

JUNE 18, 1960 85 CENTS

HOW'S BUSINESS?

irst-Hand Regional Survey
he 12 Federal Reserve Areas

By PAUL J. MAYNARD

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UGGLE for WORLD DOMINATION on the ECONOMIC FRONT

By STEWART HENSLEY

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3 COMPANIES MAKING GREAT STRIDES UNDER FINE MANAGEMENT

By WARD GATES

Special Studies of jor Industries.....

NATURAL GAS INDUSTRY

Still Suffers from Growing Pains

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NON-FERROUS METALS BENEFIT

om Increased Defense Spending?

By CALEB FAY

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TILLERS UNDER COMPETITION — AND DIVERSIFICATION

By JOHNSON K. PIERCE

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ISING THE 2 GREAT RAIL MERGERS

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th possibility of Nickel Plate
Y. Central - B&O - C&O

By ROBERT B. SHAW

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Cover Photo: President Eisenhower with Japanese Premier Nobusuke Kishi.

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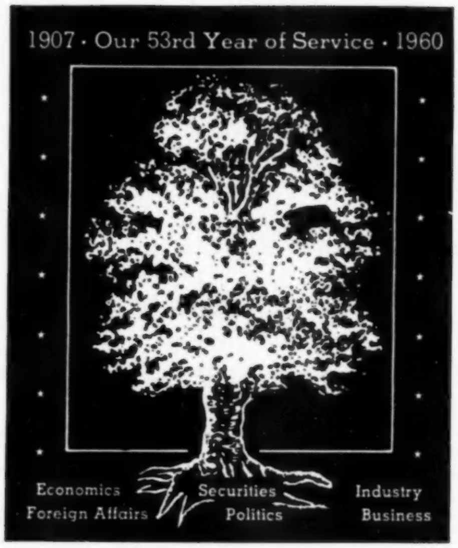
THE MAGAZINE OF WALL STREET

C. G. Wyckoff, *Editor-Publisher*



The Trend of Events

JAPAN REJECTS DICTATION BY IMMATURE STUDENTS AND RADICAL ELEMENTS . . . In refusing to be stampeded by a vociferous minority led by strongly organized subversive elements, Japan sets an example that could well be emulated by governments of the various countries where trouble is now being fomented by the same kind of irresponsible Communist-oriented student gangs and saboteurs.

In refusing to back down from their pro-American policy, the Japanese government is telling Red China and the Soviet Union that she is master in her own house. And, at the same time proclaims to the other nations of the world that she will not succumb to Communist pressure, and relinquish the right to call her soul her own, with the loss of freedom that it entails.

By taking this stand, it will not be Japan, but the two Communist intriguers who will be losing "face" before the peoples of Asia.

Thus, in the light of the issues at stake, the United States stood firm. It could do no less. Nor could President Eisenhower possibly have cancelled his trip in the face of threats that have been made against him by the hopped-up minority, which he recognized were in the main expressing their fear of reprisals threatened by Russia and Red China, if the Japanese government ratified the 10-Year Mutual Security Agreement with the United States.

This is undoubtedly the picture that President Eisenhower saw when he determined to hold to his plan to visit Japan and the Philippines too, where similar disturbances were threatened.

More than ever, it is clear that the Communists, damaged by Red China's aggression in Asia, were egging on the extremist elements to stampede their governments into anti-American action. And if they had succeded in preventing Ike's visit, were sure to capitalize on his retreat, and stamp him as a man afraid and intimidated by Communist might, which their propa ganda would have used as tangible evidence of their destructive power that each nation must fear.

With every show of Ike's determination to make this trip, their threats and shrieks of anger grew louder and

We call the attention of the reader to our Trend Forecaster, which appears as a regular feature of the Business Analyst. This department presents a valuable market analysis of importance to investors and business men. To keep abreast of the forces that may shape tomorrow's markets, don't miss this regular feature.

Business, Financial *and* Investment Counsellors: 1907 — *"Our 53rd Year of Service"* — 1960

louder to match their frustration. But their ranting fell on deaf ears, for Japan was determined not to give way to the frantic pressures of the immature minds maddened by Communist saboteurs.

And now there is every likelihood that Ike's welcome by the Japanese people who represent the great majority of the population will be nothing short of tumultuous, and the prestige of the United States will soar to even greater heights, despite Mr. Khrushchev's base use of the Communist techniques to upset the equilibrium between Japan and the U.S.

In the meantime, the attitude of the Kishi government in dealing with the leftist-inspired student riots, is bound to greatly encourage other countries to crack down, in a way that will end these demonstrations by immature elements working off youthful vigor and steam in ill-advised and ill-considered action inspired by the Communists.

What is true in Japan is true elsewhere. These various groups that have been disturbing the tranquility of nations represent only a small vocal, aggressive and militant minority who enjoy the adventure and excitement of street brawls under the spotlight of notoriety, without shouldering any responsibility.

In fact, we can expect that other governments will emulate Japan's strong stand against this type of aggressiveness, which may end in stamping out such troublemakers, and awakening the majority of adult, thinking people in every country to the need for strongly organizing themselves to combat the radical and lunatic fringe which is causing all the trouble, and creating the psychological instability which represents a real danger to every nation, and should not be tolerated.

As this is written, Mr. Hagerty has just arrived in Japan, where he was met by some 5,000 screaming Communist-inspired youths singing the Internationale — clearly pointing to the real source of the whipped-up hysteria.

The demonstrators had been called out by Zengakuren, Japan's extreme leftist student federation, and the leftist Sohyo Federation of Labor Unions, clearly showing that it was a put-up job organized from the outside by those giving allegiance to Khrushchev, and did not represent the great mass of the Japanese people.

All in all, the situation gives Democracy something to think about. Certainly, freedom for the individual should not include "freedom" for Communist infiltrators to destroy a government. Nor should their slick lawyers be able to get away with technicalities on the motives of Communist efforts to sabotage our government. For we know full well that all Communists, wherever they are found, are dedicated to the overthrow of the government of the countries in which they operate.

What has taken place in Japan should be a lesson to us, for it represents merely a spectacular example of what is going on in every country around the world, in accordance with Communist goal of World domination.

There is no doubt that the stature of Japan has risen mightily as a result of her firmness, and that President Eisenhower's determination to go to Japan will mark him as a man of indomitable courage, and tell why he won the hearts of his men and our allies during the crucial days of World War II.

Charles Benedict

GOLIATH UNDERESTIMATES DAVID. Another summit conference, this time on the domestic front and affecting the welfare of the national economy, seems headed for failure; not as spectacular as that in Paris, but with consequences that point to continued disastrous labor-management brawls damaging to our national defense and equally damaging to the family breadbasket.

Referred to, of course, is the top level labor-management conference first broached by AFL-CIO President George Meany during the height of the steel strike, and later heartily endorsed by President Eisenhower in his State of the Union message. The Departments of Labor and Commerce, after nearly five months of negotiations with Mr. Meany and the National Association of Manufacturers came up with a sort of agenda, or rather a seven-man group — three from labor, four from management.

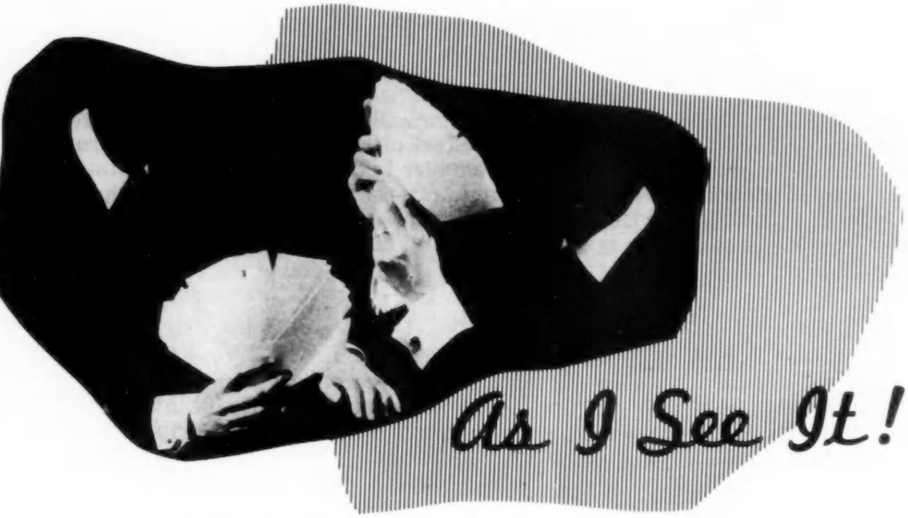
From labor there is George Meany, Walter Reuther of the United Automobile Workers and George Harrison of the Brotherhood of Railway Clerks — all of them top figures in the field of labor, all with many years of experience in labor-management relations. They all represent industries *basic* to the national economy. Parenthetically, we comment that David MacDonald, President of the Steelworkers, should have been included.

Industry conferees selected by the National Association of Manufacturers, in the opinion of the labor group, are inadequate to the task. There is no implication that they lack integrity or seriousness of purpose, but there is the claim that they do not come from large industries basic to the national economy. For this reason, say the labor forces, the management side of the conference does not have the background to adequately deal with so massive a problem as working out a system of averting future catastrophic labor-management warfare. Privately, the labor leaders are irked that their management counterparts at the conference table will be "small fry" in comparison with the labor conferees who hoped to have "big steel," "big motors" and "big rails."

In this assumption labor is wrong. It is true that none of the four selected by the NAM represents an industry which can be said to be as basic to the nation as steel, coal, transportation or communications, but each is a top executive of a large company eminently successful in its respective area, with large employee forces and with a good record in the field of labor-management relations. Further, each comes from an industry that severely suffers when the big unions — steel, transportation, etc. — stage a long strike.

It certainly seems that labor has adopted the unreasonable attitude that "our conferees are giants; you have sent in pygmies." We would remind Mr. Meany, *et al*, of David and Goliath. It isn't always the relative stature of the man which gets desired results; it's the gray matter in his head, his talents, and his application of those talents.

With a brief initial meeting behind it, the conference is slated to resume at some vague future date, perhaps in *(Please turn to page 394)*



As I See It! By Jack Bame

U.S. REDUCES DISCOUNT RATE . . . WEST GERMANY RAISES IT — WHY?

MANY are puzzled as to how to interpret the action of the Federal Reserve in cutting the rate from 4% to 3½%, while West Germany at the same time raised the rate from 4% to 5%. Does the fact that these two recent changes in discount rate — proclaimed almost simultaneously at the beginning of June — point to a new era of behind-the-scenes collaboration between central banks on credit and monetary control? Actually both moves, in themselves, represented no evident departure from established policies . . . that is, to hike the bank rate as an anti-inflationary device to curb rising prices and expanding credit, and to lower it in the case of a business decline or slack in the economy.

The American and German actions are in general accord with this concept. ***But it is the EXTERNAL CONSIDERATIONS which make them more significant and perhaps indicative of a new and more subordinate role for the discount rate in the next few years— after what may turn out to have been a short-lived renaissance for this monetary instrument.***

► **THE U.S. MOVE** was made in the face of a gold stock which has been declining for the past few years, and has been a thorn in the side of our monetary management. With the advent of external convertibility for the leading West European currencies, it was recognized that short-term funds would be more responsive to international interest rate differentials, and as a result, temporary "spreads" would lead to a shift of funds. *Hence, a limitation was said to have been imposed on the previously purely domestic considerations of U.S. discount rate policy.*

And it was generally thought — this writer *not* excepted — that the Federal Reserve would be somewhat reluctant to lower the discount rate, even in a recession period, for fear of a resultant gold outflow. Thus, for the past few months, the Fed has been relaxing pressure on bank reserves through open market operations, as no boom was evident and the demand for funds was far from overwhelming. The reduction of the discount rate was thus not a completely unexpected surprise as short-term money rates had eased.

But making the move when there was only some leveling off of business activity, which has not been a cause for any real concern, is something different. This seems to suggest that the Federal Reserve is experimentally probing the new atmosphere of a general psychology, at least temporarily free from any immediate inflation-scare.

While giving a mild stimulant to bank credit, the authorities are evidently hopeful that no major outward movement of dollars or gold will take place, *as confidence in the dollar is now strong.* The large amount of foreign short-term dollar assets here reflects this, even though some of these balances can be converted into gold — which is not presently the case. If the "test" proves the Fed right, the discount rate itself might decline in importance as an independent weapon, subservient to the control of the availability and supply of money — for which other Central Bank powers are available.

The all-important basis for such action is CONFIDENCE, which can only be achieved by demonstrating through various measures that our monetary and financial policies are to be *flexibly* and intelligently applied.

From this corner, it seems that we might finally be on the way to some degree of success in this area and thus might be entering an era of some new departures in monetary policy.

► **WEST GERMANY'S** discount rate increase, too, is most interesting from the point of view of some rather unusual accompanying innovations. The Bonn authorities are deeply concerned with a domestic inflation threat, ● due to hyper-full employment, ● new orders exceeding *(Please turn to page 396)*

How Long Will Summer Rise Last?

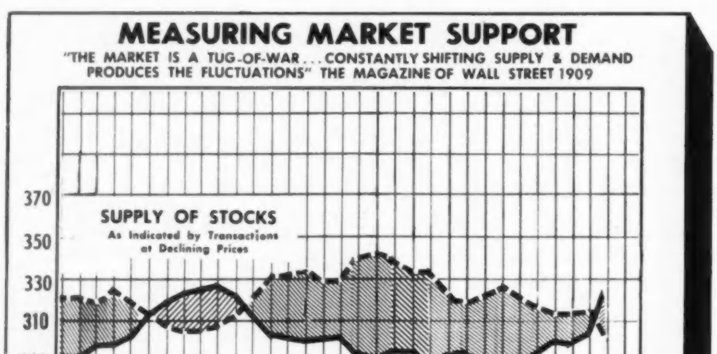
In absence of any indication of business improvement in normally slack vacation season, resistance to advance may well develop, once stimulating effect of a technical rebound has run its course. Pressure from Congress and Governor Rockefeller to boost military expenditures likely to encounter resistance from Washington Administration. Beneficial effect of capital spending already is being retarded by evidence of excessive capacity in many industries. Consumer demand also showing signs of a significant contraction. Stronger resistance to recovery expected by late July.

By A. T. MILLER

If you are one of those persons who is inclined to believe everything he reads in his daily newspapers, you probably would find ample explanation for the brisk rise registered in stocks in the last few weeks. You would have read of mounting pressure brought to bear on the Washington Administration to increase military spending. You might have assumed that the challenge by New York State's Governor Rockefeller demanding an immediate $3 billion increase in defense expenditures, would give impetus to a rash of appropriations for missiles and other nuclear weapons.

Realistic appraisal of the situation suggests, on the other hand, that any acceleration in preparedness resulting from the summit collapse probably will be comparatively insignificant and that programs authorized months ago will be carried out according to plan. Moreover, an unemotional review of recent political and economic developments likely will tend to restrain some of the speculative enthusiasm engendered in financial markets coincident with a change in Federal Reserve credit policies that found expression in a reduction of the rediscount rate to 3½ from 4 per cent.

Precedent supports the contention that credit relaxation develops in recognition of business declines — not at a time of rising industrial activity.

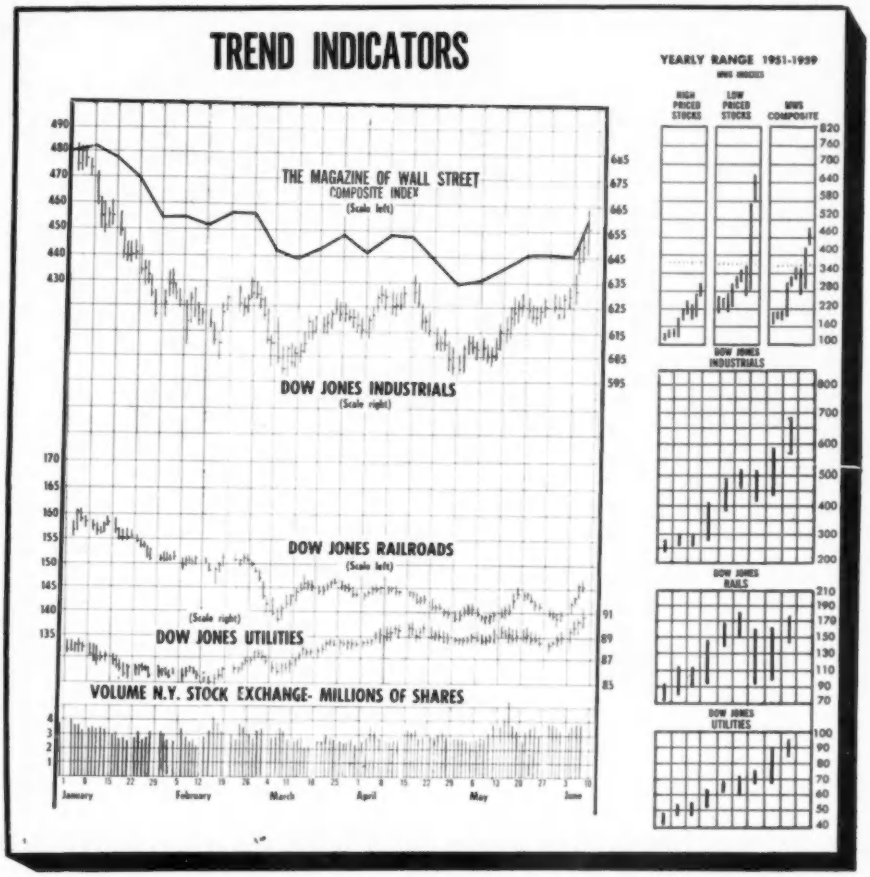


Interest rates rose sharply last winter to the highest level in a generation in response to urgent demand for funds with which to finance an expected boom that economists were forecasting as a consequence of a steel strike settlement. When the inflationary boom failed to materialize, loans were paid off and demand for credit steadily contracted. With the downward revision in bank rates, governmental monetary authorities have tacitly admitted that they are more concerned over the possibility of a recessionary trend in business than over any nearby revival of inflationary economic forces.

Why Then — A Market Advance?

Such being the case, what about the brisk rebound in stock prices to the best level in many months? What does the recovery signify, if anything, and how long is it likely to endure? In pondering these interesting queries, one is apt to decide to maintain a cautious viewpoint and to regard the behavior as a seasonal (and therefore temporary) phenomenon. In the first place, stocks had shot up vigorously in December, and in the opening session of 1960 on the false assumption that the steel contract settlement would be highly inflationary, and that there would be a rush on the part of consumers to build up large inventories of raw materials in anticipation of subsequent price increases. The reasoning proved fallacious, and traders

disposed of their speculative commitments. Institutional investors withdrew to the sidelines in expectation of lower prices and even reduced holdings on equities to establish capital gains for 1960.



Combination of Over-Sold Market — Summer Rise Psychology and Talk of Defense Spending, Lift Market

As stocks drifted lower in the first four months of the year, the market's statistical position strengthened and it became evident early in May that we had reached an oversold position. Anyone who has watched markets knows that, when prices refuse to continue downward under such circumstances, the next step is a technical rebound. Traders set the stage for this change for the better by buying stocks for a "summer rise."

Talk of a speed-up in military spending to counteract Soviet charges of aggression and border violations gave impetus to the upturn, sparking electronics and aircraft issues. Demand then spread to seasoned industrials when the so-called "glamor" stocks faded. As usual, the rally gained many supporters endeavoring to "beat the gun" on an expected reduction in margin requirements.

Incidentally, groups mentioned here a month ago as likely candidates for a summer advance — aircrafts, building supplies, electronics, retail trade and steel — fared well in the resurgence.

And Now — What's Ahead?

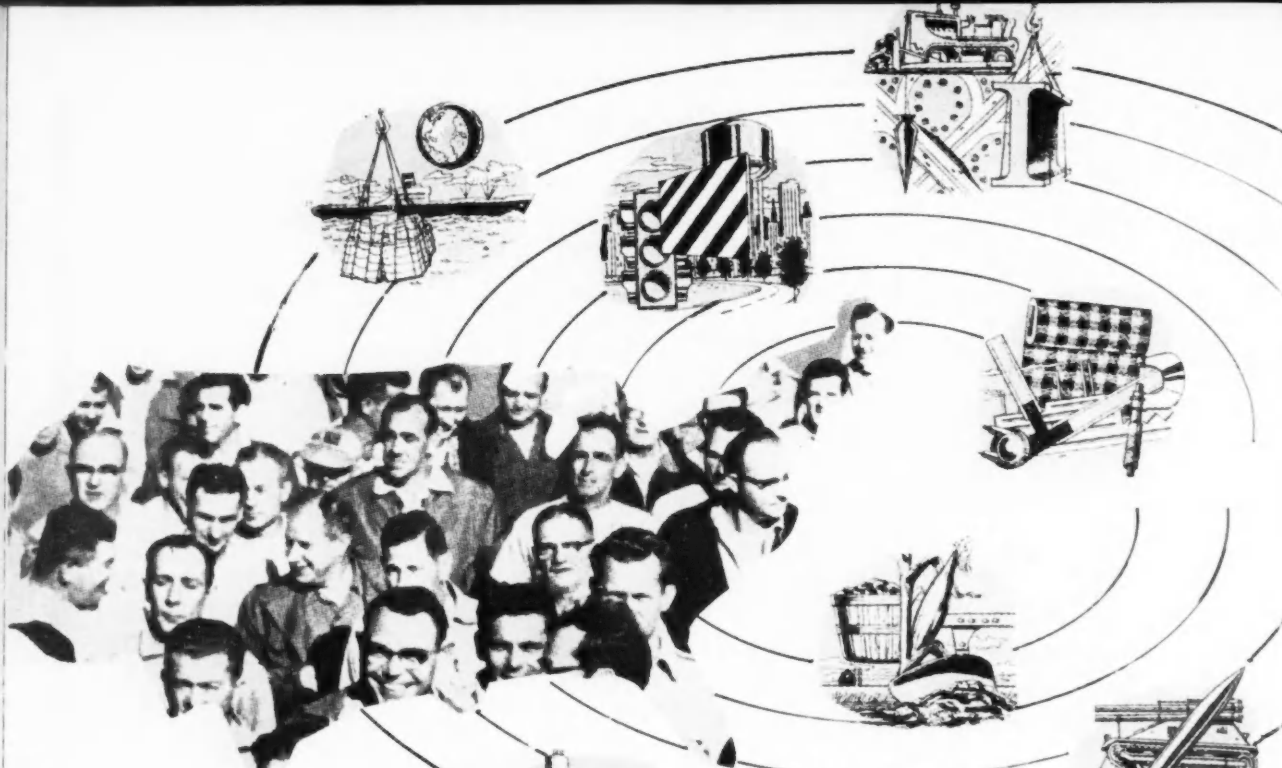
Granting, if you will, that the movement from early May to mid-June represents a technical rebound from a temporarily oversold position, what about the outlook for the next several weeks? In considering the question, one naturally would endeavor to appraise probability of business conditions. ● One would examine prospects for automobiles, not only for the approaching change-over period, but also for the 1961 new model showings. ● The outlook in motor cars obviously would be closely related to that for steel. ● Building would be considered, along with a host of smaller segments of the economy, including transportation.

What Does It Show

In undertaking the survey and weighing the evidence, one could scarcely become enthusiastic. There is little indication of an approaching vigorous improvement. ● One of the major forces contributing to a high level of business activity has been capital expenditures on new equipment and plant expansion. Projects of this nature are not increasing. The recent Securities & Exchange Commission survey discloses signs of a flattening out in capital spending ideas. The Commission envisions a total in capital spending for the year of \$36.8 billion, or slightly less than the \$37 billion estimate compiled in March. A dearth of orders for durable goods in recent months seems to have dictated a more cautious policy on expansion projects.

Although **motor car retailers** experienced the best sales last month for any May since 1955, the demand for new cars was smaller in relation to the potential market than in earlier years. Detroit manufacturers thus are frankly disappointed. **In construction,** the easing in money rates has come rather late to spur the residential market. **Steel production** in coming weeks should recover from abnormally low levels reached in the last two weeks and comparisons in July and August with strike-ridden months of 1959 will be favorable. Rising costs and narrowing profit margins continue to pose problems in steel, especially for marginal producers and others in stainless, where prices are generally unsatisfactory.

Effect of Defense Spending—If government spending is unlikely to be raised significantly — and even though appropriations should be enlarged, many months would be required to permit business to feel the impact — if capital *(Please turn to page 396)*



HOW'S BUSINESS?

First-Hand Regional Survey of the 12 Federal Reserve Areas

By PAUL J. MAYNARD

- **What business looks like in each area — how it compares with a year ago — and the trend since January 1960, looking to 1961**
- **Which industries are holding up — retail trade picture — demand for money and credit — employment situation**
- **Areas making progress — standing still — declining**

THE recent decision of the Federal Reserve Authorities to modify the policy of credit restraint may well have been arrived at after a careful analysis of the state of business throughout the country. The nation is divided into twelve Federal Reserve Districts, each one of which transmits into a central source, economic and statistical information concerning business conditions in its respective area. Because the credit easing or restraining decisions of the Federal Reserve Authorities are based on the information received from the various districts, it is interesting and informative to make a broad survey along the same lines and see what they may have found.

The district-by-district study which follows reveals rather clearly that the economic dangers lie more along the lines of deflation rather than inflation. While business in the various districts continues to operate at relatively good levels, there is evidence of a slackening in the pace. Undoubtedly it is this slackening tendency, noted in practically all the twelve districts, which impelled the monetary and credit managers to modify their heretofore stringent credit policies.

In the districts which have shown average or below average economic and business growth in

recent years, the slackening has actually created labor surplus areas, as in the First and Second Districts. And even in the most dynamic areas such as the Sixth (Atlanta), the Eleventh (Dallas) and the Twelfth (San Francisco), there is evidence of a slowing down rather than an acceleration of the rate of business activity.

With respect to the available information about business conditions in each district, there appears to be a lack of uniformity and completeness. Thus, in some instances it is necessary to look to local business associations or to state economic departments for information. Too many of the District Bank letters duplicate comments on the national picture with little or no solid economic data concerning their own district. It is understood that this situation is now being corrected so that more up-to-date data on developments in each district will be available in the near future.

Index of Department Store Sales—This single series which is uniformly available for all districts on a monthly basis, shows a downward movement from January through March in practically all districts, except San Francisco. ● This series also shows that the Atlanta, Dallas and San Francisco Districts continue to rack up larger percentage gains in department store sales over the 1947-1949 base period than the other districts. ● The latter three districts currently are reporting department store sales in the area of 60% above the base period, while the gains for the other districts average about 36%.

► With respect to *economic data applicable* to so short a period as the first three months of 1960, it is difficult to eliminate the effects of such factors as the weather and the aftermath of the steel strike. This difficulty may have influenced the Federal Reserve Authorities to delay their recent decision to ease credit. Sufficient evidence apparently built up to warrant the conclusion that even after allowing for the effects of weather and the steel strike, the tendency was in the direction of a slowing down rather than an over-acceleration of the rate of business activity.

► Whether the ensuing months of 1960 will show a continuation or a change in direction of the business trends of the first quarter remains to be seen. It is possible that some elements of strength already were in the background and will be stimulated by the shift away from credit restraint. If this proves to be the case, it is reasonable to expect that the Federal Reserve Authorities will again make some moves in the direction of tightening credit.

MAJOR BUSINESS TRENDS IN 12 FEDERAL RESERVE DISTRICTS

1. First District — Boston

Although certain phases of New England's economy held up well in the first quarter, manufacturers' plans for plant and equipment in this area are expected to show only a 12% gain over 1959 compared to an anticipated gain of 26% for the nation.

► **The bright spots** are the paper industry and the electrical machinery industry which are planning above average increases in capital outlays in 1960.

► Apparel and shoe industries have shown less than last year's rate of expansion of activities, and although textile mills maintained steady operations during the first two months, a slackening in demand developed during the period. This resulted in some easing of prices and adjustment of production schedules to avoid accumulation of excess inventories.

2. Second District — New York

Business activity in the Second Federal Reserve District during the first quarter of 1960 continued generally at a rate above that of the comparable 1959 period. However, following the national trend there was some easing in New York's economy in March from the record pace of the two previous months.

► Adverse weather was a major factor in the decline.

► The New York State Commerce Review for May, 1960, states that the output of steel in the Buffalo area was trimmed following replenishment of inventories depleted by the strike. However the rate of operation in this area continued above average. The Albany-Schenectady-Troy labor market has been reclassified to one of substantial labor surplus by the U. S. Department of Labor. The decline in the nonelectrical machinery industry there is held primarily responsible. Two other major areas in New York (Buffalo and Utica-Rome) and nine smaller ones were in the substantial-labor-surplus category in March, 1960.

3. Third District — Philadelphia

Despite the handicap of including some depressed anthracite coal mining areas within its confines, the Third District apparently is continuing to turn in an economic performance superior to that of the First and Second Districts.

► For the first two months of 1960, factory employment in the Third District was 4% above a year ago and factory wage income was up 8%. Although adversely affected by severe snow storms in March, department store sales in the Third District held to a higher level throughout the first quarter of 1960 than that of either the First or Second District.

4. Fourth District — Cleveland

Conditions in this district, which includes all of Ohio as well as parts of adjoining states, are reported to be good, although declining slightly from the spurt immediately following the steel strike.

► Industrial output, employment, sales and banking activities are generally greater than they were a year ago.

► However, in recent weeks a slackening in some areas has appeared. For example steel mills were operating at 79% of capacity in the week ended May 22, compared with a rate of 87% a month ago, and 94% a year ago. However, the 79% rate for this area is greater than the average for the country, which was 72%.

► Employment, as reported by the Cleveland Chamber of Commerce for 100 manufacturing concerns dropped slightly in both March and April.

► Electric output in the area has been declining somewhat, but in the first quarter the total output was 6% above a year ago.

► Department store sales and automobile sales

are holding at levels above a year ago and the trend of commercial, industrial and agricultural loans by banks in the Fourth District has been a rising one during the first quarter of 1960.

5. Fifth District — Richmond

Economic activity in the Fifth District, which includes Virginia and part of West Virginia, Maryland and the Carolinas, has continued this year on a high and generally prosperous level.

► A monthly Index of Economy Activity in Virginia, prepared by the Bureau of Business Research of the College of William and Mary shows the following:

Month	*Index Number (1956-58 = 100)*
January	107.6
February	117.2
March	110.7
April	122.8

► This index is based on nine selected indicators of business activity. It points up a sharp recovery in April when better weather was reflected in a substantial increase in department store sales compared to March. Unusually severe storms in the latter month may have caused some deferred demand.

► Businessmen in this area remain cautiously optimistic and this attitude is reflected in inventory positions which are quite low relative to sales.

This district's 1960 business prospects appear to be somewhat above the average for the nation as a whole.

6. Sixth District — Atlanta

This district which includes Georgia, Florida, Alabama, Tennessee and parts of Louisiana and Mississippi, appears to be one of the most rapidly improving areas in the country.

► Even though the index of department store sales for this district declined from 178 to 160 from January 1960 through March 1960, the latter figure is well above the 140 average index for the nation as a whole.

7. Seventh District — Chicago

This district includes most of northern Indiana and Illinois together with a major portion of Wisconsin and Michigan as well as Iowa.

► While durable goods manufacturers have accounted for most of the layoffs and shortening of work weeks, Wisconsin, an important durable goods producing state, has a strong employment situation.

► In March, 24 of the 149 labor market areas in the nation were estimated to have less than 3% unemployment. All 4 of the Wisconsin centers classified by the Department of Labor were in this category.

► Iowa also showed up well with both classified centers—Des Moines and Cedar Rapids, in this group. Illinois and Indiana also have relatively favorable employment situations.

► Only Michigan, among the District states, had higher unemployment than the national average, as has been the case for several years.

In general, the Seventh District's relative level of prosperity appears to be slightly below the average for the country, as indicated in its average index of department store sales of 130 for the first quarter of 1960 versus the national average of 140.

8. Eighth District — St. Louis

Divergent trends have characterized the first quarter's economic picture in the Eighth District.

► For example, the index of department store sales in this district was 150 in January, 131 in February and 126 in March. At the same time individual account bank debits, which reflect financial and economic activity, were up 9% from February in this district, and were 4% ahead of March 1959.

► The Eighth District includes important parts of Arkansas, Kentucky, Tennessee and Illinois in addition to St. Louis and surrounding territory in Missouri.

► Within the area there were different trends in the early months of 1960. Thus, in March as compared with a year earlier, bank debits declined one or two percent in Louisville, Kentucky; Pine Bluff, Arkansas; Sedalia, Missouri and Springfield, Missouri. They declined 4 to 7% in Jackson, Tennessee and Fort Smith and El Dorado, Arkansas. But there was an increase in various other cities ranging up to 10% at Helena, Arknasas and 22% at Cape Girardeau, Missouri.

The over-all 1960 first quarter economic situation in this district was one of a relatively high level of activity, tending to slacken as the quarter ended.

9. Ninth District — Minneapolis

Since this district's economy is heavily dependent upon agriculture and mining, business activity was somewhat lower than the nation as a whole during the first quarter of 1960 compared with 1959. However, in March and April employment showed significant gains as did retail sales.

► The data on personal income in Minnesota covering the first quarter registered a 3.4% gain over last year; with March figures up an estimated 4.2%. Bank debits also have been on the plus side, averaging about a 6% gain from a year ago.

► The most pessimistic economic situation in the Ninth District is the continued decline in farm income, with February statistics (latest available) showing a 14.6% decline from the same month a year earlier.

► ***The general outlook for this district is for improvement but the overall rate of economic activity may be expected to continue to be somewhat below the average for the rest of the nation.***

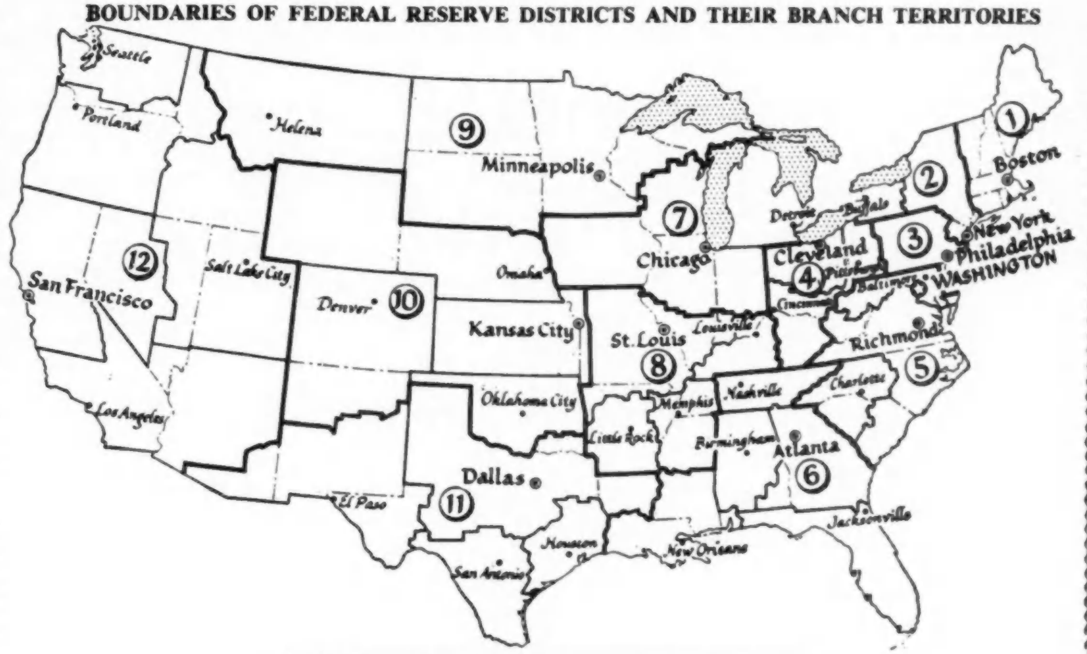
10. Tenth District — Kansas City

This district includes only a small segment of Missouri but embraces all of Nebraska, Kansas, Wyoming and Colorado plus large parts of New Mexico and Oklahoma.

► Here again the evidence of economic activity is mixed. For the first three months of 1960 the value of check payments in the Tenth District was up 4% from a year ago, with Denver making the best showing, up 9%.

► With respect to Department Store Sales, the District was 4% under a year ago, with Wichita,

BOUNDARIES OF FEDERAL RESERVE DISTRICTS AND THEIR BRANCH TERRITORIES



Monthly Department Store Sales

(Daily Average Sales 1947-49 - 100) Seasonally adjusted

Federal Reserve Districts	1960 April	1960 March	1960 January	1959 April
1 Boston	134	118	126	114
2 New York	144	127	135	116
3 Philadelphia	151	133	146	128
4 Cleveland	144	139	139	123
5 Richmond	169	137	159	139
6 Atlanta	192	160	178	165
7 Chicago	145	131	132	123
8 St. Louis	159	126	150	129
9 Minneapolis	147	133	133	122
10 Kansas City	164	145	153	141
11 Dallas	181	166	171	157
12 San Francisco	159	160	153	138
United States	154	140	145	141

Kansas, having the biggest decline, one of 14%, while Denver showed a gain of 1%.

The general position and outlook for this district appears to be above average. This is suggested in its present higher than average index of department store sales. However, present indices point to what appears to be at least a temporary slackening of the rate of gain.

11. Eleventh District — Dallas

The Texas economy has been booming over recent years. At present, however, this state's economy seems to be on a plateau. Business is very good but does not appear to be showing a discernible upward trend.

► Total industrial production is about on a level with where it was a year ago. Manufacturing has shown strength, but the petroleum industry has been the major weak spot in the economy of the area. This district continues to be one of the nation's strong sections economically.

► Its index of department store sales currently is the highest for all Federal Reserve Districts. The index number is 166 (100 is base for 1947-1949). This compares with 140 for the nation as a whole.

► Recently announced business expansion plans give optimism to the near-term outlook, but it would take a strengthening in the petroleum situation to restore full prosperity to the area.

12. Twelfth District — San Francisco

This large district includes the entire West Coast from the Mexican border to Canada plus Idaho, Utah, Nevada, part of Arizona and all of the two new states of Alaska and Hawaii.

► *This is probably the most dynamic of all the Federal Reserve Districts in respect to economic growth and activity.*

► Department store sales in this district are running 160% above the 1947-49 base level.

► Also, bank debits to demand deposit accounts rose to $23.1 billion in April, 1960 from $22.2 billion a year ago. The weekly operating rates of western steel producers averaged about 80% of capacity in March 1960, down 10% from the February level of operations. This suggests that, as in other areas of the country, the stimulus to production provided by inventory accumulation has dwindled sharply in recent weeks.

► Also in the lumber industry orders came in slowly through March and lumber production was increased less than seasonally during the month. Sawmills have been revising sales estimates downward and are becoming more cautious about increasing already high *(Please turn to page 393)*

3 COMPANIES MAKING GREAT STRIDES UNDER FINE MANAGEMENT

By WARD GATES

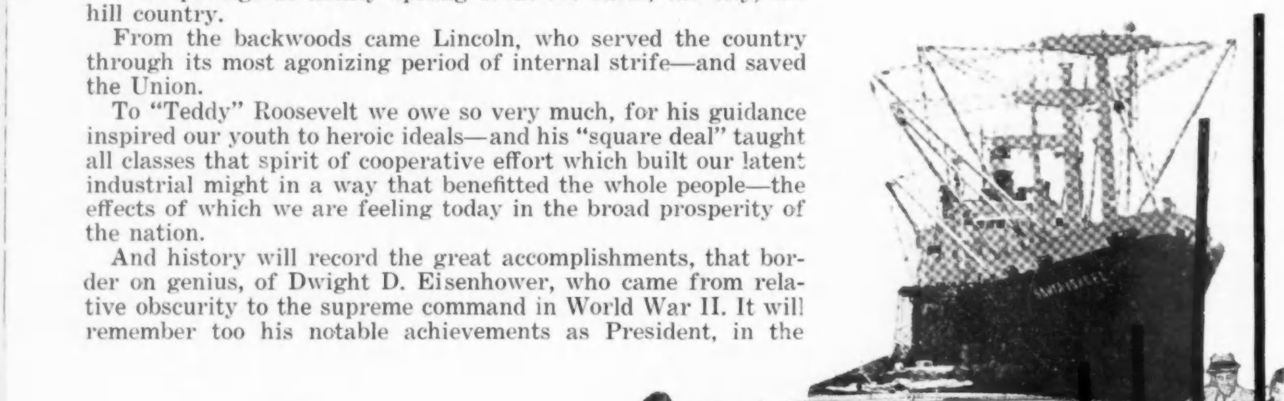
- **The "Champ" at Pullman**
- **The challenge to Peter Grace—and how it was met**
- **George Romney—the "David" who battled the Goliaths of the Auto Industry**

THE greatness of this nation has been built on the leadership which has always come to the fore in every crisis. And these men of prodigious ability sprang from the farm, the city, the hill country.

From the backwoods came Lincoln, who served the country through its most agonizing period of internal strife—and saved the Union.

To "Teddy" Roosevelt we owe so very much, for his guidance inspired our youth to heroic ideals—and his "square deal" taught all classes that spirit of cooperative effort which built our latent industrial might in a way that benefitted the whole people—the effects of which we are feeling today in the broad prosperity of the nation.

And history will record the great accomplishments, that border on genius, of Dwight D. Eisenhower, who came from relative obscurity to the supreme command in World War II. It will remember too his notable achievements as President, in the

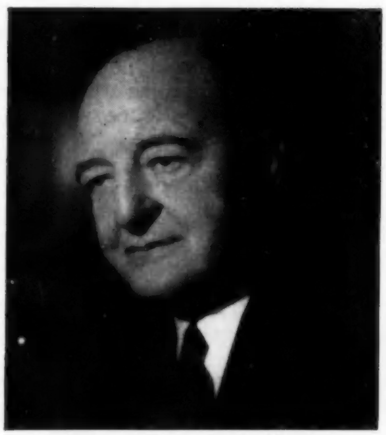


difficult task of maintaining peace under the hammering of destructive forces, and the leading of our nation through times of great peril with soldierly courage and unfailing devotion.

But we have not only been fortunate in national leaders at time of crisis. We have been fortunate too in the advent of men having industrial, organizational and inventive genius, who have built for the United States the greatest industrial machine in the world. What nation has produced greater men than Benjamin Franklin who in addition to his versatile talents in the various areas of economics, diplomacy and philosophy, made such basic contributions to the development of electrical energy? What of Thomas Edison, Henry Ford, Andrew Carnegie and John D. Rockefeller, to cite but a few of the builders of America who literally scratched out new industries with their bare hands, and laid the foundation for the broad ramifications for an economy that has set the pace in world leadership. And there were many others who have demonstrated great genius and contributed in their own way to the growth of our country.

Similar contributions are being made today by men of the same caliber who have taken declining enterprises, and by sheer ability, organizational talent, and hard work, have welded them into powerful and successful entities. Such men are Champ Carry of Pullman, Inc., J. Peter Grace of W. P. Grace & Co., and George Romney of American Motors, who met challenges that in some ways were more baffling than the rough and tumble struggles of the earlier giants. For each of these men, faced with different situations, revived moribund companies, breathing new life into businesses that seemed stagnant at best, or on the way to ruination, at worst.

What is most fascinating about the accomplishments of these three is the different roads they traveled, and the different battles they fought, not in the cause of personal glory, but for pride of accomplishment. In the process they not only saved fortunes in invested capital and built new enterprises, but also created new areas of employment where economic distress threatened—and made it all worthwhile.



Champ Carry, President
Pullman, Incorporated

J. Peter Grace, President
W. R. Grace & Company

George Romney, President
American Motors Corporation

The David Who Battled the Goliaths of Auto Industry

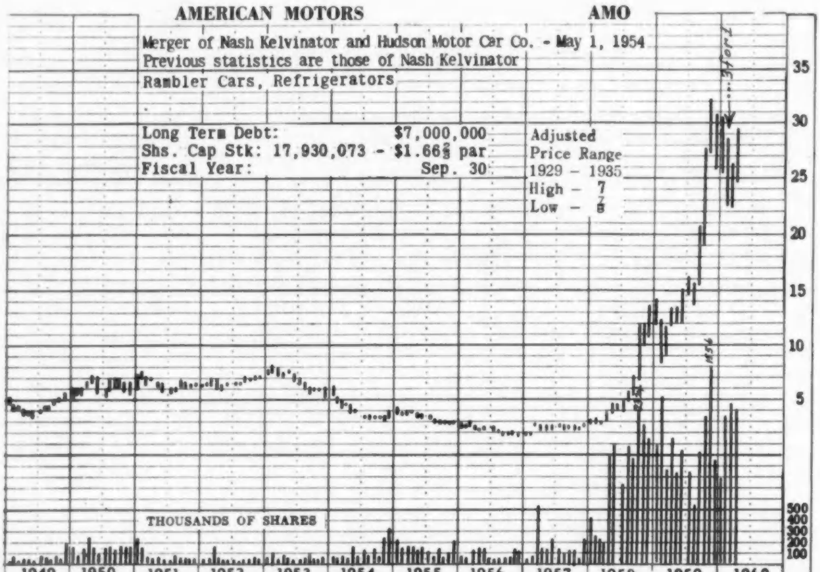
George Romney presents the most romantic case in point. For what is more in the American tradition than the "little fellow" who wages an uphill fight against great giants and wins.

When Romney joined Nash-Kelvinator in 1948 as assistant to the president, the company was an "also ran" in the automobile field although well regarded in the home appliance industry. In fact, in that year it was Studebaker which stole the show from the auto giants with a revolution in styling although, unlike Romney, Studebaker was unable to cash in on its success.

After the merger of Nash and the Hudson Motor Car Company, Romney was elevated to the position of executive vice president, but the merger did not solve the difficulties. The company was dying on its feet, piling large losses one atop of the other, in a vain attempt to match the giants of the auto industry, under a set of rules that made it practically impossible for any small company to compete.

At this stage of the game, in 1954, George Romney was made president and promptly showed his special talents of vision coupled with common sense. His enthusiasm won the support of such men as 43 year-old Roy Chapin, executive vice president and head of the Automotive Division, 52 year-old Abernethy, sales vice president, and 49 year-old Bernitt, Automotive Operations, in a way that completely transformed the slow plodding Hudson-Nash producer into the company it is today.

The Rambler which was a little nonentity at first eventually rocked the automobile industry with earthquake force, shattering smugness and ushering in the little compact car, moving into what was once the low-priced market. Ford, Chevrolet and Plymouth are now in the medium priced field. This year the compacts account for almost 25% of the industry's output and there is no reason to suppose that Romney is wrong when he declared recently that



	1949	1950	1951	1952	1953	1954	1955	1956	1957	1958	1959	1960	
	2.01⅓	2.21⅓	1.24⅔	.96⅔	1.08⅓	d.65	d.41	d1.16	d.70⅔	1.55	3.39	1.48‡	EARN.
	.71⅔	.95	.66⅔	.66⅔	.66⅔	.12½	-	-	-	-	*.80	.25†	DIV.
	-	-	-	70.0	67.7	82.0	62.4	54.6	46.2	79.9	110.2	WORK.CAP.MIL. $	

* Plus stk div. ‡ 6 months ended 3/31/60 † new quarterly rate

"Rambler-sized compact cars . . . will be taking more than 50% (of the market) by the end of 1961."

From American Motors' point of view the happiest outcome has been the persistence with which car buyers have continued to purchase Ramblers despite the competition from the Big Three. In fact, in May 1960 AMO again increased its share of the car market. This year American Motors looks to a billion dollar sales volume against a mere $400 million as recently as 1954. Earnings have climbed from deficit operations to relatively handsome profits.

Of greater importance, however, is the fact that the company has developed brand loyalty among its customers; and through good management has reduced its break-even point to the lowest in the industry. George Romney has done a good job!

The Challenge to Peter Grace

George Romney won his fight. That was one type of industrial heroism. A less dramatic, but equally heroic task, was accomplished by Peter Grace, third-generation president of W. R. Grace & Co. For until 1950 W. R. Grace was essentially a steamship line, subject to all the pitfalls, aggravations and money-losses that have beset the unhappy shipping industry in the post-war years. What was worse, however, was the fact that most of whatever money Grace did earn originated outside the U.S., usually in Latin-American countries that froze the funds within their borders. The results for W. R. Grace stockholders were galling, with the company beset by one problem after another.

J. Peter Grace, though born and raised within the Grace empire, fortunately was built of the kind of stuff that revitalizes great dynasties rather than dissipating their strength in easy living. From the time he joined the company in 1936 he rolled up his sleeves and went to work. When he attained the presidency in 1945 he immediately undertook a major study to determine where his company should go and how it should get there.

In retrospect, there were apparently two major decisions. The first, and most important was to cut down the company's dependence on shipping operations. It took courage to break with tradition, and great daring to transfer operations to new and untried fields in which the company had to compete with well established entities. But it had to be done if Grace was to build up revenues and earnings *within the United States,* where the company was free to reinvest as it pleased, and where the stimulation of more certain dividend payments would open the doors widely to the great capital markets at home.

To accomplish his purposes, Peter Grace chose to concentrate his efforts in the chemical industry, an area where demand factors were known and where at least an adequate return on invested capital could be attained with reasonably good management. Thus, while most of the shipping industry continued to wallow in government subsidy and competitive disadvantages, Peter Grace painstakingly began the task of completely making over the entire company in a few short years.

He could have chosen the more sensational road of national defense and the ephemeral glory that goes with a high-flying stock. Instead, he chose to do a real job of corporate rebuilding, with the following results:

In 1950-1952, the years just prior to Grace's entry into the chemical field, over 95% of the company's earnings stemmed from steamship operations and other Latin-American activities. By 1959, chemical operations, mostly inside the United States, were responsible for 68% of pre-tax profits, and seem certain to loom even larger in the future.

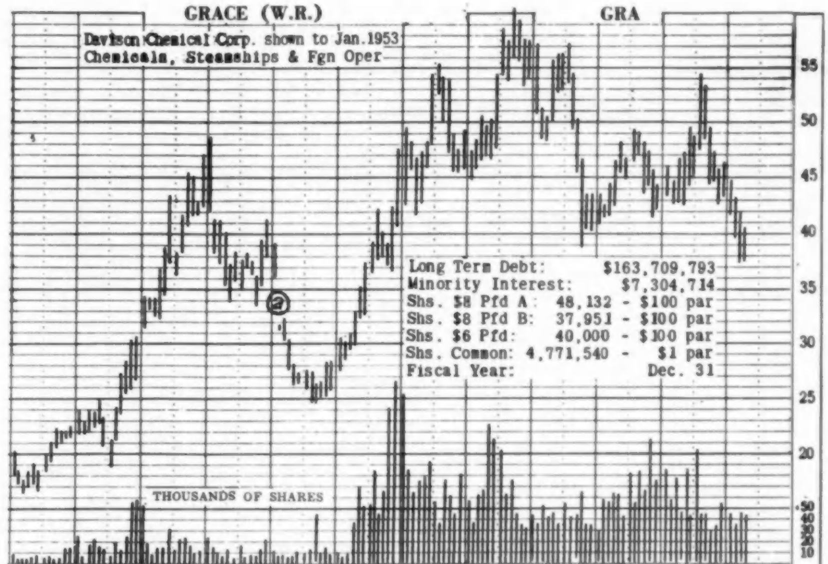
Peter Grace has accomplished much in one brief decade but there is much more to come. Grace is already a major agricultural chemical company; its Cryovac Division is among the leaders in the production of new packaging materials; and its Polymer Division ranks high among polyethelene plastic manufacturers. In addition the recent acquisition of Hatco Chemical puts Grace in the lucrative jet engine lubricating field. But the rebuilding seems to have only just begun.

The success of the chemical ventures has now established a base of solid earning power and encouraged Peter Grace to cast his eyes about for new, but related areas—this time in the petrochemical field, which allows the company to utilize its chemical know-how, while gaining access to the raw materials through an interest in the petroleum industry.

Since 1955, Grace has been a partner with Esso

and Texas Gulf Producing in the exploration and exploitation of oil reserves in Libya. Most important, and in recognition of its former repatriation of capital problems, the contract that Grace has with its partners relieves the company of marketing problems, and with the option of selling its share of production or importing it for refining or for chemical usage.

At the same time, Mr. Grace arranged for a domestic supply by acquiring a majority interest in Cosden Petroleum in January of 1960. For in addition to Cosden's considerable assets the company also has a large unused import quota which can be used by Grace to import Libyan oil if the need should arise.



	1949	1950	1951	1952	1953	1954	1955	1956	1957	1958	1959	1960
EARN.	4.20	4.18	3.24	3.27	3.61	3.36	4.16	4.30	3.30	2.07	2.98	
DIV.	1.50	1.50	1.50	1.50	1.75	1.75	2.00	2.30	2.40	2.20	•1.60	.40†
WORK.CAPITAL $	10.1	11.5	14.8	15.0	101.2	112.2	129.8	108.1	120.6	130.3	138.1	

Davison Chemical rec'd 1.4 shares of Grace when absorbed by Grace & Co. May 1954 • Plus stk div. † 1st quarter

The tie-in with Cosden provides other immediately tangible benefits. Its 40,000 bbl. refinery will serve as an excellent raw material base for Grace's petro-chemical operations and will fortify its already solid polyethelene position. Furthermore it puts Grace into the fast growing field of styrene and aromatic chemicals.

Thus in less than ten years, Peter Grace has transformed W. R. Grace & Co. from a sickly shipping company to a corporation diversified in chemicals, shipping and oil, with the financial resources and the technical know-how for expansion into new horizons.

The stock market, mesmerized by rockets and the siren-song of quick profits has virtually ignored the corporate transformation wrought by Mr. Grace. But his efforts have not been unnoticed by professionals—the group who in the long run control the flow and the direction of investment funds.

The Champ at Pullman

Pullman's President Champ Carry is cut out of the same stamp as J. Peter Grace. He too had the courage and the conviction to take a plodding company out of its misery and create a dynamic new entity that is today, a major factor in several important industries. When Champ took the reins of Pullman in 1941, the company enjoyed a world-wide reputation as a manufacturer and operator of sleeping cars. But improved roads, the burgeoning air transport industry and the fiscal problems of the railroads made it obvious to men of vision that the day of the "sleeper" was nearing its end.

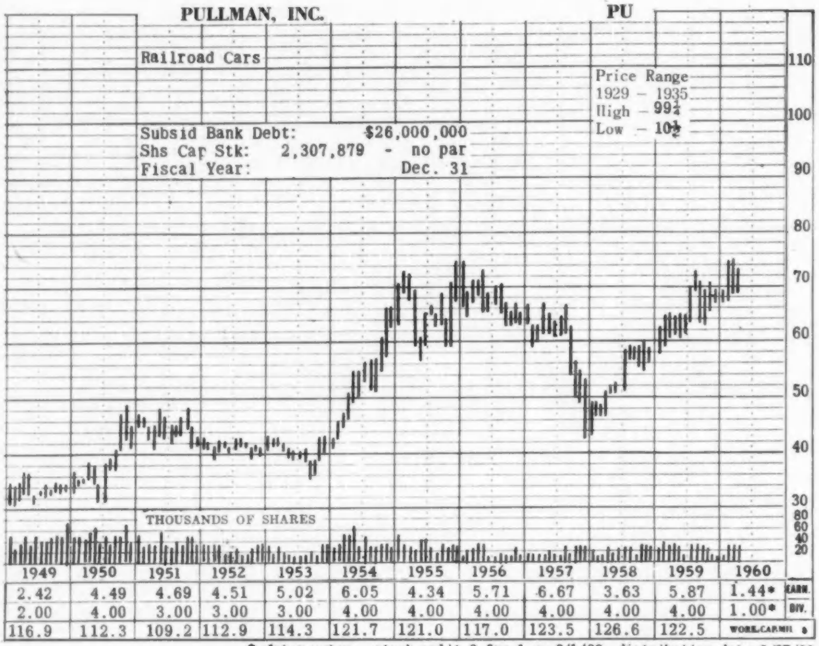
The onset of World War II provided a respite for the company, since alternate forms of transportation were virtually non-existent, but Champ Carry knew that with the war's end the day of reckoning would come. Consequently when a chance arose in 1944 to acquire the M. W. Kellogg Co., Carry jumped at the opportunity to become a major factor in the engineering and construction of oil and chemical refineries. At the same time, he was laying plans to build up the freight car business, since he knew that a badly depleted national railway system would need refurbishing after the war.

In 1947 a Federal Court ordered Pullman, in an anti-trust action, to divest itself of either the production of railroad cars or the operation of sleeping cars. Carry wisely chose to sell the sleepers to a group of railroads, who have been struggling with it ever since, and to expand the freight car operations.

When Champ took charge of Pullman he inherited a tradition of financial soundness which he continued to guard jealously. Maintenance of the company's dividend record in an unbroken line since 1867 was a matter of pride, but Champ Carry's financial acumen enabled him to use the financial resources for diversification with imagination, in a way that enabled him to maintain the company's financial stature.

The Kellogg operation proved a successful beginning; the freight car business was providing the necessary revenues to maintain stability, when Carry made his boldest move.

At a time when the railroads and other equipment manufacturers were bemoaning the inroads trucks were making on rail traffic, Carry decided that the two forms of freight forwarding were not incompatible—and in fact might supplement each other. In effect, he saw that in a rapidly growing nation the need to transport goods would provide an ever-widening market for those who produced the means of transport. Instead of rigidly adhering only to the freight car, therefore, he purchased Trailmobile, a major manufacturer of truck trailers. In a few short years, Pullman became one of the most important companies in the field, second only to Fruehauf. Trailmobile is estimated to account for over 20% of all trailers on the road. When it is considered that today, only nine years later the truck is



* 1st quarter — stock split 2 for 1 on 6/1/60, distribution date 6/27/60

the fastest growing transportation medium in the country, Carry's foresight can readily be appreciated.

Other Ingenious Activities

The acute and active Mr. Carry, however, is never content to rest on his laurels. With a lifetime of experience in freight car building he knew that one of the thorniest problems for the car makers was the insistence of the railroads on cars built to their own specifications. The needless duplication of tools, dies and other productive facilities both depressed profit margins for the builders and raised the cost of cars to the rails. Consequently, Champ pioneered the cause of standardized cars. It was the hardest job he ever tackled but today the PS-1 box car, the PS-2 covered hopper, the PS-3 open hopper and the PS-4 flat car are standard items on all railroads, regardless of the supplier. Carry helped not only Pullman, but the entire rail industry and its equipment makers.

The Highly Successful Piggyback Adventure

Champ Carry's amazing foresight and solid building job paved the way for what may well be the most revolutionary step in transportation — the piggybacking of trucks on flat cars. The idea is so simple and solves so many problems that it appears certain to develop rapidly to the benefit of both the trucking industry and the rail industry. It is probably much more than coincidence that this exciting new field is, in effect, a marriage of Pullman's two largest fields, rail cars and trailers. This coming together of two seemingly opposite poles less than 15 years after Carry began his building job, represents creative thinking of the highest order in the industrial sphere.

His amazing success, and his apparent insight into future trends is now making Pullman's most recent acquisition a source of interesting speculation. In 1959 he took over Swindell-Dressler, a leading designer of steel mills specializing in furnaces and kilns. Coming at a time when many companies are seeking to diversify out of capital equipment fields, it will be interesting to see if Carry's latest bet, that America is on the threshold of a new era of capital growth, will prove correct.

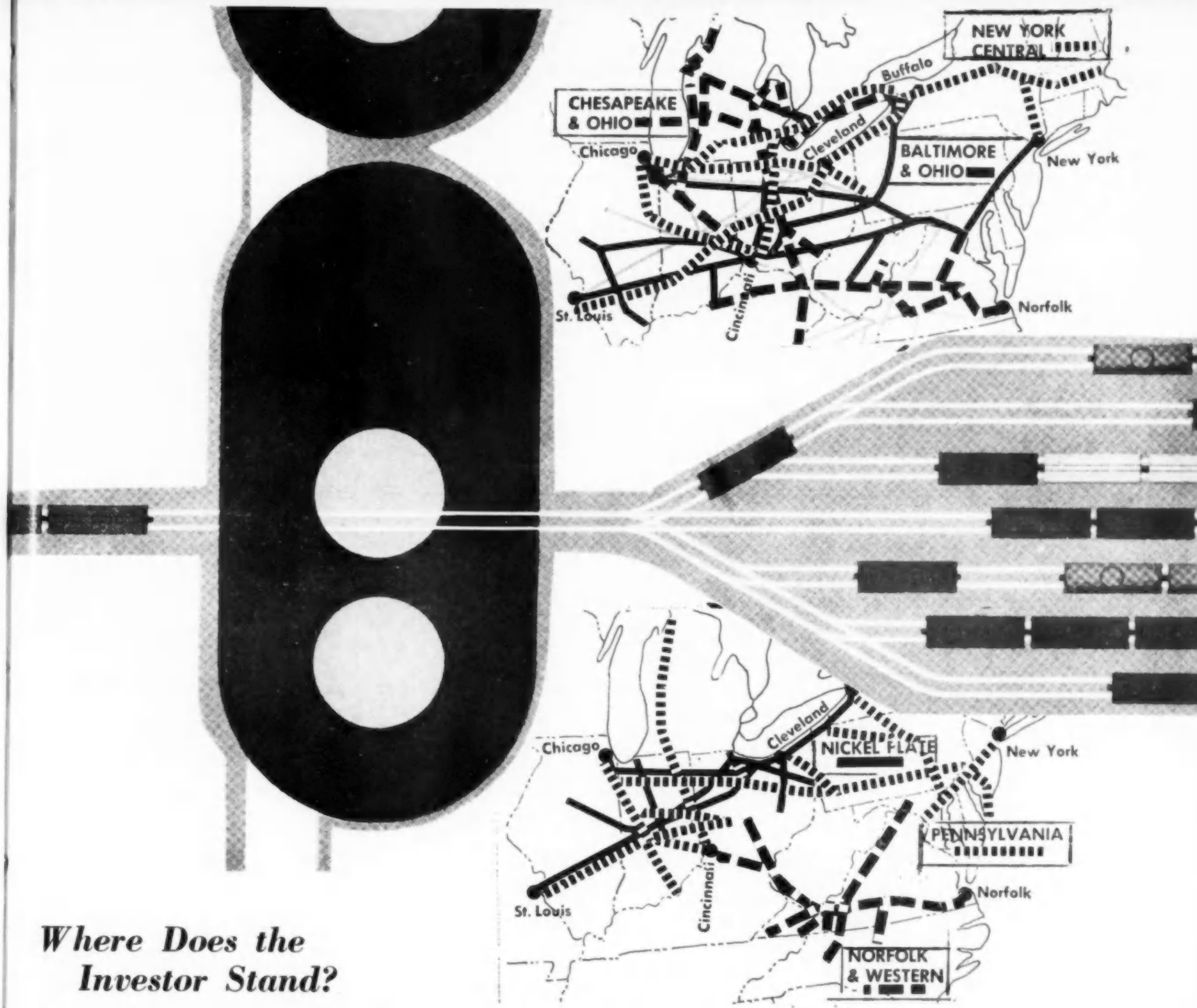
To fully appreciate Champ Carry's performance it should be realized that the company's resurgence has been accomplished without any of the gimmicks that have become popular in the last decade. There has been no depletion of the company's assets, no purchases with artificially inflated stock—and no suffering on the part of stockholders.

After 41 years with Pullman, Champ Carry can view his masterpiece with pride. His company is a major factor in railroad equipment, petroleum and chemical engineering, trailers and steel mill equipment—all major American industries. Pullman is prosperous, its stockholders happy. Nevertheless it is doubtful that Champ retires at night in smug satisfaction. Rather he probably thinks of the new challenges ahead, not the victories behind. END

Income Data

	Net Sales (Millions)	Income Taxes (Millions)	Net Income (Millions)	Net Profit Margin	Earnings Per Share	Cash Earnings Per Share	Div. Per Share
AMERICAN MOTORS							
1960 (1st 6 months to 3/31/60)	$554.6	$ —	$26.6	4.8%	$1.48	$ —	$1.00[1]
1959	869.8	45.1	60.3	6.9	3.39	3.63	.80[2]
1958	470.3	(CR) .5	26.0	5.5	1.55	1.72	—
1955	441.1	(CR) 9.7	d 6.9	—	d .41	—	—
GRACE (W. R.) & CO.							
1960 (1st Quarter)	N.A.	—	N.A.	—	N.A.	—	[2]1.60[1]
1959	469.7	9.3	14.8	3.1	2.98	7.86	1.60[2]
1958	434.2	8.4	10.0	2.3	2.06	6.93	2.20
1955	427.0	12.8	18.7	4.4	4.16	7.68	2.00
PULLMAN INC. (Old Stock) *							
1960 (1st Quarter)	110.8	3.1	3.3	3.0	1.44	—	4.00[1]
1959	399.9	9.8	13.5	3.3	5.87	8.14	4.00
1958	368.0	5.4	8.4	2.2	3.63	5.62	4.00
1955	330.3	10.2	9.5	2.9	4.34	6.19	4.00

N.A.—Not available. *—Stock split 2 for 1 on 6/1/60. [1]—Annual rate. [2]—Plus stock.



Where Does the Investor Stand?

APPRAISING THE 2 GREAT RAIL MERGERS

New York Central — Baltimore & Ohio — Chesapeake & Ohio Pennsylvania — Norfolk & Western — Virginian — with Possibility of Nickel Plate

By ROBERT B. SHAW

EVENTS of the past several weeks have provided the probable answer to a question long debated by railroad analysts. What will be the next major economy, succeeding dieselization, to give the carriers a rejuvenating shot in the arm? Automated classification yards, piggyback, relief from featherbedding, and final abandonment of all passenger services have each been suggested as the hottest candidate. But now it appears that large-scale merger offers the most immediate hope for the realization of major operating savings, which will at the same time place routings on a more competitive basis.

Within this recent period the **Erie-Lackawanna** merger has been approved by an Interstate Commerce Commission examiner, and referred to the full board for a confirmation that can almost be taken for granted in the due course of bureaucratic procedure. Two long-standing rivals, the **Atlantic Coast Line** and the **Seaboard Air Line,** have also just approved merger on a management basis and will shortly submit the proposal to their stockholders. The **Soo, Wisconsin Central** and **Duluth, South Shore & Atlantic** quietly endorsed unification; here the process was expedited as all three roads were already controlled by the Canadian Pacific. Other roads are

Financial Data On Railroads In Proposed Mergers

	Pennsylvania R.R. Group			New York Central Group		
	New York Chicago & St. Louis	Norfolk & Western	Penna. R.R.	Baltimore & Ohio	Chesapeake & Ohio	New York Central
Average Miles Operated (1958)	2,155	2,133	9,940	5,937	5,130	10,524
Total Assets (mil.) (12/31/1959)	$463.5	$978.8	$2,923.1	$1,262.7	$1,068.0	$2,561.5
Net Road and Equipment (mil.) (12/31/59)	$282.0	$833.0	$2,324.7	$ 787.0	$ 886.3	$2,169.5
Total Funded & Equipment Debt (mil.) (12/31/59)	$161.8	$217.2	$ 882.4	$ 432.5	$ 367.6	$ 982.2
Total Revenues (1959) (mil.)	$150.4	$246.9	$ 887.6	$ 395.2	$ 347.6	$ 773.1
Net Income (1959 (mil.)	$ 13.2	$ 60.7	$ 7.2	$ 14.8	$ 45.6	$ 13.1
No. of Common Shares Outstanding (000)	4,161	7,349	13,167	2,547	8,170	6,499
Earned Per Share (1959)	$ 3.20	$ 8.10	$ 0.55	$ 4.87	$ 5.60	$ 2.03
Earned Per Share (3 mos. March 1960)	$ .75	$ 1.90	$ d .22	$ d .68[1]	$ 1.16	$ .51
Current Dividend Per Share	$ 2.00	$ 5.00	$ .25	$ 1.50	$ 4.00	$ .50
Recent Price	37	99	13	31	61	22
Dividend Yield	5.4%	5.0%	1.9%	4.8%	6.5%	2.2%

d—Deficit. [1]—4 months, 4/30/60.

known to be carrying on studies of the economies offered by prospective corporate marriages. The **Norfolk & Western-Virginian** merger, which was effected by physical track connection last December 1, is already at this writing ancient history.

But the merger proposal that has really shaken the industry, and which promises to give the greatest impetus to railroad consolidation in half a century, is that of the **New York Central-Baltimore & Ohio-Chesapeake & Ohio**. This union, if effected, would create by far the largest railroad system ever seen on this continent.

Railroad Mergers Not New

For half a century now the nation's railroad map has required little redrawing; the major systems familiar to our parents have remained pretty well intact. This is not to suggest, however, that merger is an unfamiliar process in railroad history. On the contrary, most of our well-known modern railroads, with the conspicuous exception of some of the western transcontinentals, evolved from the combination of numerous pioneer short lines. It was the work of some of the organizers of the last century — such figures as Vanderbilt and A. J. Cassatt — to link these independent segments into regional systems.

But after 1900 the process of railroad merger slowed almost to a standstill, as the carriers enjoyed a general prosperity that removed the incentive for such drastic measures. True, the trials of World War I caused a revival of merger talk, and after the Interstate Commerce Commission was formally directed by Congress to prepare a national plan of railroad consolidation, the working out of various merger formulas became the favorite pastime of railroad analysts for a decade. The financial distress and sharp change in previous traffic relationships caused by the depression shelved all such plans, and eventually the whole scheme was abandoned.

Few indeed have been the important mergers consummated since World War I. Among those few were the combination of the Gulf, Mobile & Northern and Mobile & Ohio to form the **Gulf, Mobile & Ohio** in 1940, the Alton later being tacked on in 1947; the union of the Chesapeake & Ohio and the Pere Marquette in 1947; and two mergers of parents with affiliates already controlled, Wheeling & Lake Erie into **Nickel Plate** in 1949 and Nashville, Chatanooga & St. Louis into **Louisville & Nashville** in 1957.

Norfolk & Western And The Merger Epidemic

It would be inaccurate to suggest that the most recent combination, between the Norfolk & Western and Virginian, was itself responsible for the renewed interest in mergers, for other current proposals were already under discussion. As long ago as November, 1957, the two crippled giants, **New York Central** and **Pennsylvania** announced the initiation of merger studies, but the former cancelled these somewhat rudely a year ago. The **Chicago & Northwestern** was apparently close to corporate marriage with the **Milwaukee** in 1956, when this affair was abruptly called off by the Northwestern's new Heineman management, which announced that rehabilitation should precede merger. The Erie-Lackawanna union, which was originally to include the **Delaware & Hudson** as well, has been under negotiation since 1956, and some physical coordination has already been accomplished.

But the Norfolk & Western merger seems likely, for several reasons, to galvanize other roads which have been considering consolidation more leisurely into prompter action. First of all, this union was carried out with unprecedented speed. Recommended by management to the stockholders only in February of last year, it received I.C.C. blessing and became a *fait accompli* within eleven short months. Again, it creates a potential competitive threat that will suggest merger to other eastern roads as the best measure for self-defense.

If Norfolk Takes Nickel Plate . . . . ?

The former Virginian Railway was short and closely paralleled the Norfolk & Western; its major advantage to the latter was its remarkably low, 0.2% eastbound grade over the Blue Ridge, allowing the movement of 200-car coal trains with three diesel units. This acquisition did not invade any one else's territory. But no sooner had it been completed than Norfolk announced the inception of merger negotiations with the Nickel Plate, and altogether more startling proposal. Nickel Plate, extending from Buffalo and Detroit to Chicago and St. Louis, nowhere connects with the Norfolk, although its lines

across the Middle Western plain leave no wide gap with the Norfolk's western extremities at Columbus and Cincinnati.

Such a union would alter the existing trunk-line territory railroad picture radically, by converting the Norfolk & Western, heretofore primarily a coal carrier, into a major contender for east-west traffic. Needless to say, this merger will stir up much more opposition than that just completed. The Nickel Plate, which closely parallels the New York Central's main lines west of Buffalo, has always been a thorn in the flesh of the latter. Likewise Chesapeake & Ohio can hardly regard this invasion of its western territory with equanimity, but it will have no convincing grounds for objection, as the Norfolk-Nickel Plate union would merely duplicate its own merger with the Pere Marquette, a dozen years ago.

The proposed merger will obviously enjoy the support of the Pennsylvania, which holds a 27% interest, probably close to working control, in the Norfolk & Western. To be sure, the Nickel Plate is likewise a competitor of the Pennsylvania, but the latter, the thwarted partner in the abortive affair with the Central, has clearly shown an interest in merger with some important carrier. The possibility that other eastern roads have to face, therefore, is not merely a Norfolk-Nickel Plate junction, but an eventual union of these two with the Pennsylvania to create an octopus blanketing the whole northeastern quadrant of the country.

Quick Reaction By C. & O. — B. & O.

To be sure, Stuart Saunders, president of the Norfolk, has asserted that his conversations with the Nickel Plate were merely speculative, and in view of the snail's pace of railroad consolidation in the recent past, it may be premature to visualize a hook-up of these two with the Pennsylvania. Nevertheless, the threat is a real one, and competing roads must examine their own defenses.

The best defense is often a spirited offense. In any event, the Chesapeake & Ohio management, disdaining such indecisive maneuvers as "conversations" or "studies", promptly launched a counter-assault with a definite offer, as of May 16, to exchange their own for Baltimore & Ohio stock, in the ratio of one share of Chesapeake common for each B. & O. preferred or 1¾ B. & O. common. B. & O. directors approved the proposal and recommended its acceptance to their own stockholders; President Simpson of the B. & O. described it as the first step toward a merger of the two roads. The C. & O. reserves the right to terminate the plan if less than 80% of all of the B. & O. stock is tendered to it, but the exchange is at least superficially attractive, as it overvalues B. & O. stock on the current market by about $3. a share.

The **Reading** and the **Western Maryland,** both about 43% controlled by the B. & O., might also eventually be brought into the new system. I. C. C. approval will be required for the proposed merger, and plenty of objections are likely to be raised by prejudiced parties, but that agency would be indeed retrogressive to block the program.

Where The Central Comes In

A tie-up of the B. & O. and C. & O. alone would create a very respectable system. Persistent rumors, however, have also linked the New York Central with these discussions. Although President Perlman of the Central has refused to comment upon the subject, the B. & O.'s Simpson has admitted to a reporter that discussions involving all three roads have been in process. Merger of the Central with the C. & O. would, of course, mark belated fulfilment of the late Robert R. Young's fond dream. In any case, the Central, despite its disenchantment with the Pennsylvania, remains a logical candidate for merger with some suitable carrier; the very thin trickle of its gross revenues down to the bottom line in its earnings statement demands some bold antidote.

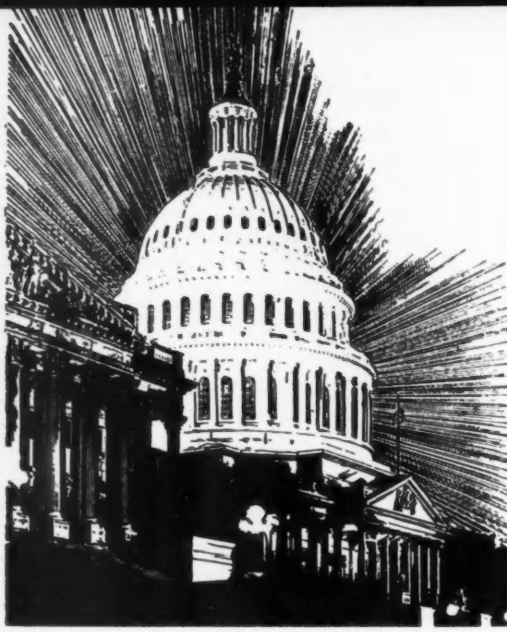
A three way Central — B. & O. — C. & O. merger would even dwarf a rival Pennsylvania-Nickel Plate-Norfolk & Western combination, creating by a wide margin the biggest railroad in the country in terms either of gross revenue or route mileage. In respect to the vital flow of red corpuscles through the railroad arteries, net income, however, the enlarged Central system would still lag behind the new Pennsylvania.

But it would be misleading to appraise the strength and advantages of the merged systems simply by combining pertinent figures for their present components, as railroad mergers make no sense unless two and two can be added together to make at least five. A brief examination of some of the more important merger benefits will provide perspective for the proposals under current discussion.

Why Merge?

Railroads are heavy fixed asset industries and therefore earnings are highly leveraged in terms of fluctuations in gross revenues. Generally, the industry is characterized by substantial overcapacity, arising from overbuilding in the pioneer era, failure to participate fully in the post-war traffic surge, and technological improvement. Either an increase of gross by virtue of better service and new traffic sources achieved through merger or the elimination of facilities serving a constant volume of traffic offers unusual profit opportunities.

Mergers may be divided into two major categories, the end-to-end and the parallel type. The former, while allowing some organizational economies, primarily serves to extend traffic connections and reduce intermediate terminal delays. The parallel combination, of which Norfolk & Western — Virginian or Lackawanna-Erie provide excellent examples, typically promotes coordination of existing facilities, the abandonment of duplicate track and terminals, or mutual utilization of more favored routes and grades. The advantages to each partner, in terms of dollars and cents, are extremely difficult to compute, and this has been one of the most serious obstacles to a more vigorous merger movement, but it can hardly be doubted that enormous opportunities are inherent in every well-conceived merger plan. Although the Erie's prospective partner, the Lackawanna, is only a relatively small carrier, the two roads expect to realize joint earnings of no less than $13 million annually, before taxes, from their union. *(Please turn to page 392)*



Inside Washington

By "VERITAS"

CONGRESS will go home in two weeks, or less, but they may come back shortly after the nominating conventions. The decision could be the President's, more likely it will be decided by a pair of Texans — House Speaker Sam Rayburn and Senate Majority Leader Lyndon Johnson. If these two decide the legislative record of this Congress is deficient on the "liberal side," on issues with voter appeal, they will propose a recess rather than "sine die" adjournment, even though what may be enacted in the overtime Session may run into a firm White House "No!"

WASHINGTON SEES:

Congressional investigations of the U-2 "spy plane" incident will not wind up in general criticism of the President for the reason that two Congressional Committees have known of the practice for a matter of nearly four years. In the wind, however, is the "decapitation" of Allen W. Dulles as Director of the super-duper and hush-hush Central Intelligence Agency (CIA).

Dulles, because of his insistence that Congress know nothing of CIA's operations, is far from popular on Capitol Hill, where both laws and appropriations are made. Now, according to influential Solons, is the time to get him out of the way and substitute for him a man whose approach is more sophisticated.

The substitute would be none other than J. Edgar Hoover, Director of the Federal Bureau of Investigation (FBI), with a remarkable record of success in dealing with espionage and subversion — at the same time keeping the public and Congress posted on FBI operations and progress, a quality in nowise attributable to Dulles.

Hoover is due for statutory retirement in about two years, but is so dedicated to the cause of this country that his acceptance of the position for the remainder of his natural life is a foregone conclusion.

The proposal has been openly broached in Congress and will gather momentum during the coming weeks.

LABOR, without firm knowledge of who the respective Presidential nominees will be, is already campaigning for the Democratic choice; if not for him, against the Eisenhower-Nixon Administration, presumably on the assumption that Mr. Nixon will be the GOP choice. Upset nomination of Mr. Rockefeller, instead of Mr. Nixon, would cause some confusion in labor ranks, but generally the AFL-CIO will go "down the line" for the Democrat. This is of no surprise to the average political observer, but this is the first Presidential year in which Labor, through its publications, has thrown its weight behind an as-yet unknown Presidential nominee. Already, CIO-AFL is emphasizing the Eisenhower-Nixon Administration as responsible for advancing living costs, the 100,672 bankruptcies in the fiscal year ended June 30, sustained veto of the so-called depressed areas bill and a host of other "ills." Thus far, Labor has "taken no excursion" into the collapse of the Summit Conference, but is expected to do so within a matter of three or four weeks.

CUBA visit of Khrushchev is causing deeper concern than K's almost daily insults of this country. Feeling is that his very virulence lessens the effectiveness of his attacks in most areas of the free world. But, with Cuba virtually within the Soviet orbit today, there is the premonition that the Russian leader will complete a deal with Castro to solidify relations between the island republic and the USSR. It is pretty well known that Castro wishes to become the "Nasser of the Caribbean," that he might get material encouragement — technical and military aid from K, with resultant disturbances in other areas of Latin America.

QUOTE: "Congress always tries to do as near right as it can, according to its lights . . . in a free country like ours, where any man can run for Congress and anybody can vote for him, you can't expect immortal purity all the time — it ain't in nature. Sixty or eighty or a hundred and fifty people are bound to get in who are not angels in disguise."—Mark Twain

As We Go To Press

A Hoover Type Commission to Probe Sprawling Defense? It is in the making, but will not be unveiled for some months yet. Administration circles, including top figures in the multi-acred Pentagon, Capitol Hill personalities and private business executives, aware of enormous wastes through duplication and lack of genuine co-ordination, have come to the conclusion that a complete overhaul is necessary.

Congress can't do the job, even working with the Administrative agencies involved. Needed is a Commission of the Hoover type, headed by a man of the former President's ability, drive and patriotism who would draw his aides from outside the government. It is doubtful that Mr. Hoover, at his advanced age, would be willing to undertake the job. The $64,000 question — what man outside of government has the capacity for the job?

Aid to Chile Boosts U. S. Stock in Latin America. Our prompt response to the desperate needs of Chile in her recent series of quake, tidal wave and volcanic disasters has definitely countered growing anti-U. S. feeling among our neighbors to the South. Within a matter of hours after first word of the disasters were received here, we were loading and flying to the Chileans 34 giant Globemasters with complete equipment to replace destroyed hospitals and to install effective water purifying systems as protection against typhoid, etc. In addition, the American Red Cross poured in more aid, and continues to solicit and collect funds for the stricken nation. Intelligence reports now coming back to Washington from other Latin countries indicate considerable reversal of unfavorable opinion about the "imperial yanqui." It is almost certain to restrain the Cuban dictator, Fidel Castro and, according to reliable intelligence, is apt to curtail the number of Latin invitations Khrushchev will receive in connection with his visit to Cuba.

Highway and Water Carriers Want ICC Act Amended, And Now! Section 15a(3) of the Interstate Commerce Act, passed by Congress in 1958 after extensive investigation and hearings is their "beef". The complained-of section specifically provides "that rates of a carrier shall not be held up to a particular level to protect the traffic of any other mode of transportation." It all means that ICC, in judging a proposal for a rate reduction is to weigh the fairness to all shippers and not its effect on other carriers.

Meanwhile, the rails are countering their competitors with the simple query, "What is morally wrong with lower prices for the benefit of shippers and consumers?" Railroads, long hurt by "subsidized" highway and waterways traffic, have been making some revenue gains under Sec. 15a(3). In view of the lower cost to consumer angle, and the slow betterment of the railways, some fiscally close to danger of Federal take-over, there is little likelihood that Congress will repeal or water-down the section as it now stands.

Realtors Increasingly Concerned with Inadequate Adherence to High Standards. Two national organizations are now quietly surveying the whole field of realty operations with a view to tightening up their Codes of Ethics, which even now place more exacting standards and obligations on the Realtors, than those imposed by law. Root of the problem is proper training of salesmen, according to one expert in the field.

Paralleling the Realtors' concern is the mounting numbers of fly-by-night home improvement companies, out for a "fast buck" at the homeowner's expense. In one metropolitan city alone, the Better Business Bureau has turned up and exposed over 160 of these "gyps" in a single year. The problem is primarily one for local law enforcement agencies, but the Realtors plan to get into the scrap on a nationwide basis, declaring that the victims of these frauds too readily blame the professional Realtor for what happens.

Railway Labor Unions to be More Active in Politics. That is the word from top leaders of the "Big Four" Operating Unions. Heretofore the B-4 has shunned endorsement of candidates or Parties, but now they are definitely moving into the Democratic fold — will advocate support of issues that have Democratic support, and have had for many years. Already in the open for stepped-up Federal development of natural resources, they will get solidly behind a program of more liberal Social Security benefits — including medical and nursing care for the aged — as well as economic aid to depressed areas, generous Federal aid to education. In short, they are even now fighting for measures that have met Republican opposition.

Chemo-Biological Warfare Research to be Intensified. Army's Chemical Warfare Section, somewhat hampered in the past by lack of funds, now has a green light from Defense Department's top co-ordinator for research. There will be little time in which to get additional appropriation from Congress, but Chemical Warfare will go ahead — Secretary of Defense has ample authority to transfer funds from other research projects; or it can be run for remainder of calendar year on a deficit basis with Congress enacting a deficiency appropriation early in the next Session.

The intensified new studies will be devoted to the development of so-called nerve gases and germs which could render whole areas defenseless through temporary disablement (not destruction) of its military and civilian populations. The new weapons, if properly developed, could be delivered by missiles as well as heavy bombers, while field artillery shells could carry gas or germ heads for localized operations. Supporters of the idea hold the belief that this type of warfare would be the logical successor (and perhaps superior) to nuclear weapons "when, as and if" the major powers agree to abandon them for good.

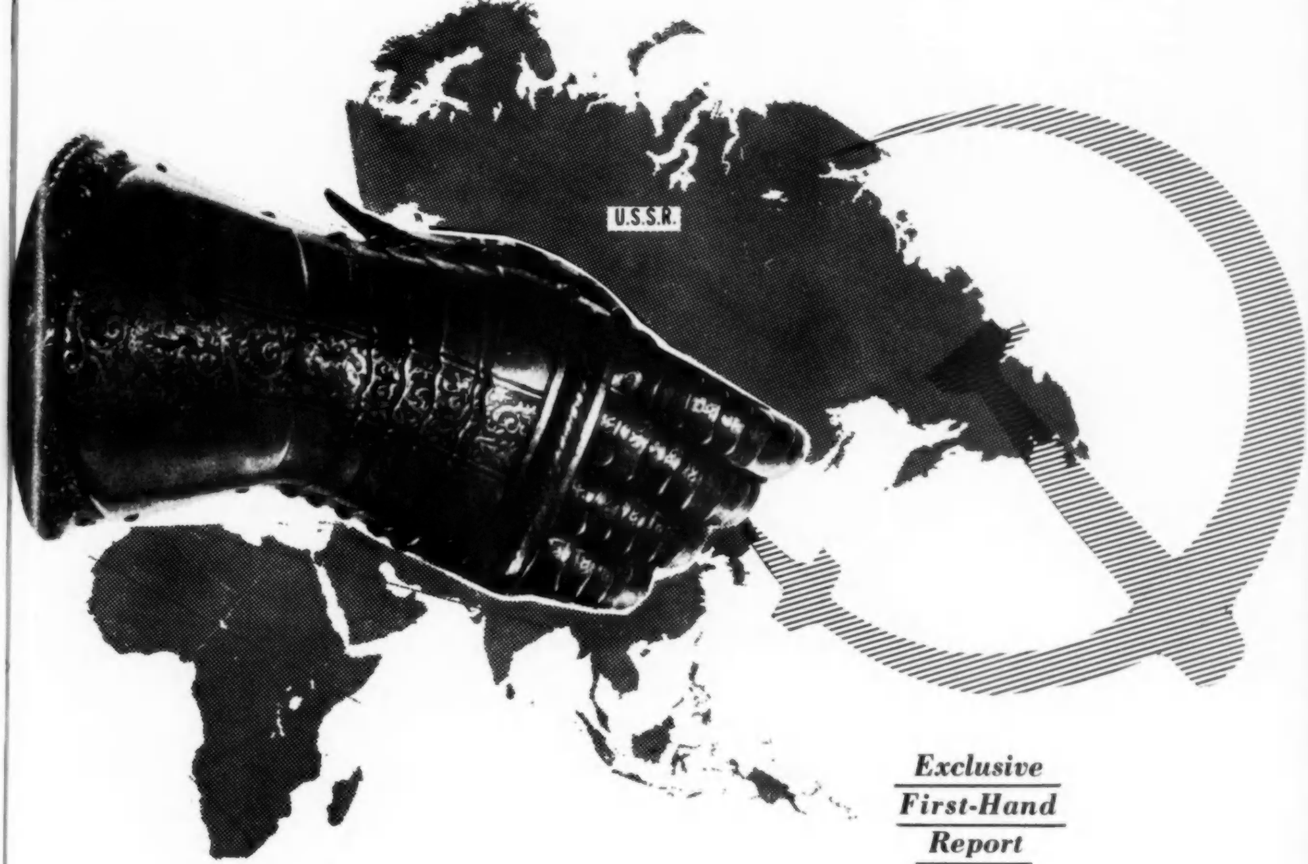
Elsewhere on the research front, private industrial firms have passed the $9 billion mark — may hit $10.5 billion before year's end. These figures are exclusive of Federally financed research and development projects in the fields of defense. Percentagewise, private R & D is running far ahead of expenditures for new plant and equipment expansion, now in slight decline.

Water Resources Outlook is Not Good. Soon-to-be published report of a Special Senate Subcommittee on Water Resources will carry grave connotations and, frankly, its recommendations will not carry a total solution to the problem. Among the bad findings of the group: 70 million families today are receiving in their homes water that has spent part of its time in a sewer system; that by 1980, four industries alone will require 80% of the fresh water supply for survival; that other industries' demands will increase.

Need is seen for a crash program for distillation of sea water and brackish underground waters; far tighter Federal controls over water pollution — even the unhappy thought of recapturing and re-purifying waters from sewer outlets in the metropolitan areas. Department of Interior, with one brackish water purification pilot plant in operation and three more nearing completion, is encouraged by relatively low costs of fresh water production in comparison with conventional fresh water systems — what is needed, according to the experts, is the crash program the Committee will recommend.

Nuclear Powered Submarines for Passenger Service. Two or three marine architects are mulling the idea of high-speed nuclear submarines for passenger service. They admit present costs are prohibitive but, looking to the future, when research may bring costs down, feel there would be enough travelers wishing to avert sea sickness to make the venture profitable. The especially designed craft could surface cruise in good weather, submerge in bad.

Government Aid in Solution of Community Problems. The Federal Deposit Insurance Corporation is stressing coordination in government, "if needed," with special emphasis on metropolitan-wide problems. FDIC, however, does not put this up as the panacea for metropolitan growing pains, but will also stress the need for community wide understanding of the problems, a program to fight blight, and leadership by private business.



Exclusive
First-Hand
Report

STRUGGLE for WORLD DOMINATION on the ECONOMIC FRONT

— With No Quarter Asked — Or Given

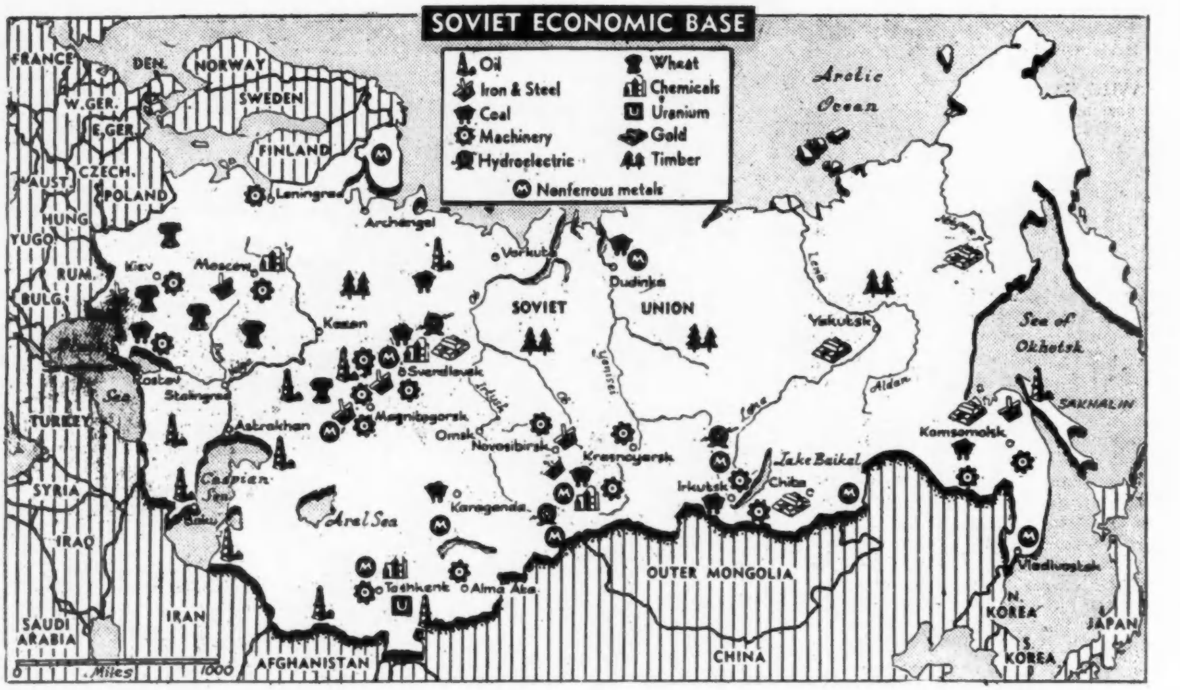
By STEWART HENSLEY

- **Can Soviet Union intensify economic struggle in the face of serious deficiencies in raw materials and manpower?**
- **7-Year Plan is not being achieved in agriculture — production goals — expansion of chemical facilities — targets for motors — petroleum equipment — natural gas — etc.**
- **How will people accept additional impairment of 7-Year Plan under further deflation of economic resources to military uses?**
- **Soviet trade-and-aid offensive — the "inside" story on Mr. K's new ruble — shorter work week — and tax reduction**
- **As U.S. girds for battle with Soviet Union**

THE phrenetic events of the past few weeks should serve to emphasize—for those who might have forgotten—that the basic long range struggle between the Soviet Union and the United States, between Communism and the West, is being fought on the economic, not the military front.

If this fundamental is borne in mind it becomes much easier to understand the almost hysterical behavior of Soviet Premier Nikita S. Khrushchev in the wake of the American spy plane incident and the Summit debacle.

Khrushchev himself repeatedly has warned the West that Communism is going to achieve World domination by gaining economic supremacy. Yet when he begins to lash out in frustration in all directions, ***there often is a tendency in Washington and elsewhere to seek motivations everywhere but in the direction which he himself has advertised.***



The affair of the ill-fated spy plane (whether it was "bungled" by the Eisenhower Administration or not, has no relevance at this point), set off a chain of circumstances which Khrushchev obviously fears will hit him where it hurts eventually—on the economic front. This will impair Russia's ability to carry on the economic offensive, with psychological and ideological overtones, which Khrushchev has boasted will finally "bury" the West.

The dramatic evidence that American planes had been flying with impunity over the Soviet Union, photographing in detail its jealously guarded military secrets, was a terrible blow to the vanity of the man who had been boasting to his own people and those in the satellite countries of Russia's invincibility.

It made him look silly in Peking, Eastern Europe and around the World.

But worse than that, from Khrushchev's standpoint, the affair greatly strengthened the position of those elements in the Communist Party Central Committee and the Soviet Military hierarchy who have been demanding more emphasis on guns and less on butter.

It made it virtually certain that Khrushchev will have to forego or curtail some of his cherished schemes to improve living standards at home and step up the economic offensive abroad in order to devote more funds to military projects.

► The crashing end of the "detente," which he had so carefully nurtured with the idea of lulling the West into lowering its guard, meant an end, too, to his plans to cut Soviet armed forces sharply, divert manpower into new economic channels and throw greater funds into the "trade and aid" warfare against the West.

These unhappy (for Mr. K) developments, added to indications that economic conditions in Russia and the satellites are not as rosy as Soviet propagandists would have one believe, add up to the serious possibility of trouble for the Soviet leader.

He undoubtedly knows it. That could easily explain why he has been most cautious, despite his wild abuse of President Eisenhower and the United States and his saber-rattling against American allies, NOT to take any really substantive steps which bring matters to the brink of open warfare.

Khrushchev has carefully refrained from reimposing any deadline for signing a separate peace treaty with Communist East Germany and forcing the Allies out of West Berlin. He has said only as much as was minimally necessary to placate the East Germans and other satellite peoples—but he has not gone an inch farther.

Despite signs of trouble ahead for Khrushchev and his planners, it would be most unwise for the West in general and the United States in particular to lower the guard against the Russian economic offensive, any more than it would be wise to relax military precautions.

The Russian nature is resilient. The country is vast and its resources tremendous. Khrushchev's present fury can be taken as a measure of the energy which will be devoted to bringing the utmost economic pressure on the West, despite probably lessened capabilities for a time.

Khrushchev appears to have suffered a setback on his chosen battlefield—that of economic warfare—but he has by no means lost the war.

In assessing the economic difficulties which the Soviet Union is facing, we should not be lulled into any sense of false security. All competent analysts agree that Russia is not doing as well as Soviet planners had hoped in many respects. But none would contend that the Soviet bloc's long-range ability to wage effective economic warfare has been

impaired to any extent.

With that caveat against any wishful thinking, let's take a look at the Soviet Union's present economic position as it emerges from the best evidence Western sources have been able to obtain.

Where Soviet Union Stands vs United States

Comparisons between Soviet and American growth rates and achievements usually are rather useless, because the conditions are so different and relative values impossible to equate.

But there is one respect in which a comparison probably has some value, since it demonstrates the comparative military "engine load" which each economy bears.

The Soviet Union devotes about twice as much of its gross national product to military purposes as does the United States. Director Allen W. Dulles of the Central Intelligence Agency says the Russians' "continuous diversion of economic resources to military support is without parallel in peacetime history."

Yet Khrushchev, as a result of recent disclosures and developments, finds his hopes of reducing this staggering load dashed. If pressure in the Soviet hierarchy is great enough, the load may even have to be increased.

Soviet officials themselves have had to revise downward some of the goals of the seven-year plan which began in 1958. Even so, the country's growth rate would appear most impressive if it were assumed that Russia's only economic goal was a better life for the people of the Soviet Union. But it is not.

Khrushchev at last year's Party Congress sketched the magnitude of the Soviet economic dream:

"The economic might of the Soviet Union is based on the priority growth of heavy industry; this should insure the Soviet victory in peaceful competition with the capitalist countries; development of the Soviet economic might will give Communism the decisive edge in the international balance of power."

It is to be assumed that the general success of Russia's seven-year plan, which began in 1958, is dependent upon relatively high degrees of success on all fronts. On one front Khrushchev already is in definite trouble.

The seven-year plan envisaged an increase of 70 per cent in agricultural production between 1958 and 1965. This is not being achieved, due to both natural and human factors.

► ***The 1959 harvest,*** according to Khrushchev, was "the worst in four years." And the Soviet press has been full of articles on poor organization of agriculture and the bad conditions of mechanical equipment.

American experts believe the 1959 drop in grain output may have been as high as 25 per cent. Its full impact has not yet been felt because Soviet levels were fairly high to begin with. But it already has put a crimp in the ambitious Soviet plans for expanding cattle production and meat consumption this Summer.

► There is considerable evidence that Spring crops in many areas were destroyed by drought and wind erosion and had to be reseeded, putting planting considerably behind schedule.

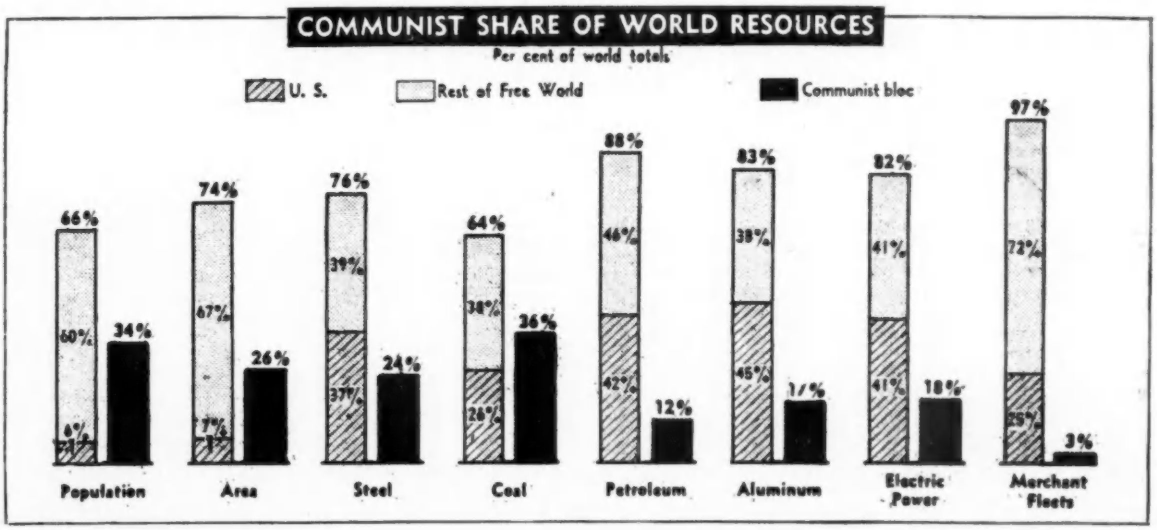
Presumably the rains will continue to fall on the just and the unjust alike in relatively equal amounts over the long haul. But for the time being, the elements have dealt Khrushchev a serious blow.

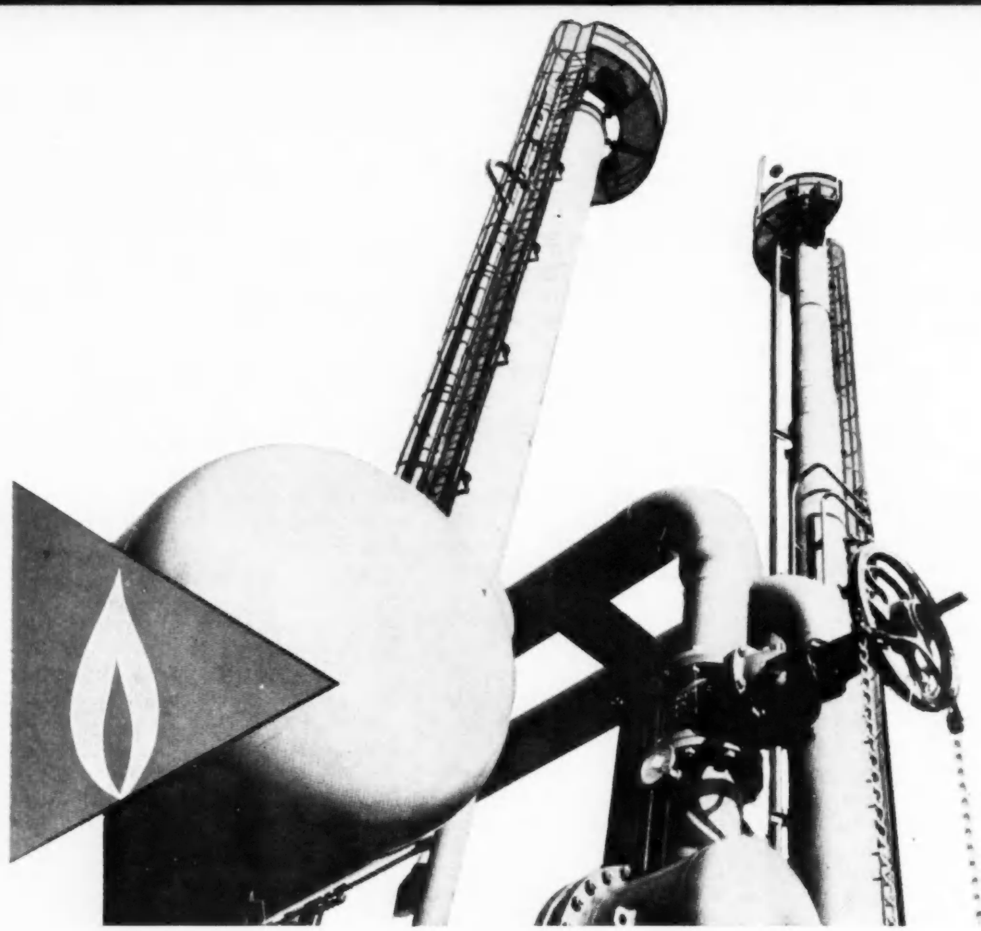
Even given average weather conditions, it was not expected by American experts that Soviet agricultural production would increase more than 18 to 20 per cent during the seven-year plan, compared with the target of 70 per cent.

Now it is evident that nature and man have conspired to cut even this estimate. The result on general economic conditions could be significant.

► Soviet achievements in industry under the seven-year plan have varied.

Moscow claims that in 1959 production goals were exceeded for housing, coal, iron ore, electricity, steel pipe, metal cutting tools, passenger cars, ball and roller bearings, buses, paper products, timber, diesel locomotives and a variety of consumer items. Russian statistics are always suspect, so the claims, unsupported by specific *(Please turn to page 389)*





NATURAL GAS INDUSTRY
Still Suffers from Growing Pains

By KENNETH HOLLISTER

- **Regulations — rates — interfere with robust growth of healthy teen-age industry**
- **Blanketing potential gas users, now cultivating gas appliance market and industrial usage**
- **Heavy financing continues for new pipeline construction and storage facilities for huge and growing reserves**
- **Investment — speculative — status for the individual companies**

As pointed out in these columns about a year ago the natural gas industry shows no sign of slackening its pace of rapid growth, and industry pronouncements continue to support this contention. A year ago it was also pointed out that other reading matter from the regulatory agencies and courts that crossed the desk of the financial analyst did not have the same rosy glow; rather it had a pallor. The patient, unfortunately, is still bed-ridden. The passage of a year has brought developments, however, and perhaps even progress.

A Teen-Age Industry

Before assessing the prospects for the future, a short review of the history of the natural gas industry may be helpful. Its current structure dates essentially from the mid 1940's when improved manufacture of seamless pipe permitted economic construction of long distance transmission lines. Prior to this development huge quantities of natural gas had been flared as a waste product or sold to nearby industrial plants at a fraction of its worth. Shortly after the end of World War II pipelines were constructed from the southwest to practically every area of the country. As gas was still being sold relatively cheaply the demand for its use for househeating was tremendous. Further, the availability of this desirable product in quantity, materi-

Statistical Summary of Natural Gas Companies

	Earnings Per Share				Dividend Per Share		Price			Price	Price
		Yearly	1st Quarter			Indicated	a	Recent	Div.	Earnings	Range
	1958	1959	1959	1960	1959	1960 *	Year Ago	Price	Yield	Ratio †	1959-1960
Pipe Lines (Some Production)											
El Paso Natural Gas	$1.61	$1.66	$ .42	$ .75[5]	$1.30	$1.30	33	31	4.1%	18.6	39 -27¼
Mississippi River Fuel	1.96	2.19	.52	.57	1.60	1.60	38	31	5.1	14.1	41¾-30
Northern Natural Gas	1.62	1.92	.87	.74	1.40	1.40	32	28	5.0	14.5	35¾-26¾
Panhandle Eastern Pipe Line	2.80	3.30	.93	.88	1.80	1.80	46	42	4.2	12.7	59¼-42
Southern Natural Gas	2.40	1.85	.39	.64	2.00	2.00	38	35	5.7	18.9	46¾-33½
Tennessee Gas Transmission	1.22[4]	1.28[4]	.17[4]	.18[4]	.92[4]	1.10[3]	34	23[4]	4.7	17.9	29¼-20⅛
Texas Eastern Transmission	2.33	2.02	N.A.	N.A.	1.40	1.40	30	27	5.1	10.2	36½-26½
Texas Gas Transmission	2.06	2.33	.59	.80	1.25	1.40	29	33	4.2	14.1	35¼-27⅛
Transcontinental Gas P. L.	1.17	1.25	.36	.36	1.20	1.00[2]	23	20	5.0	16.0	25 -17½
Integrated Companies											
American Natural Gas	403	4.55	4.02[1]	4.57[1]	2.60[2]	2.60	62	63	4.1	13.8	66⅝-55⅜
Arkansas — Louisiana Gas	1.27	1.68	.56	.59	.60	1.00	34	33	3.0	19.6	38½-23⅜
Colorado Interstate Gas	2.29	2.40	1.10	1.11	1.25	1.25[2]	51	35	3.5	14.5	58¾-34¾
Columbia Gas System	1.41	1.40	.70	.72	1.00	1.00	21	19	5.2	13.5	24⅜-19
Consolidated Natural Gas	3.14	3.09	2.67	2.36	2.10	2.20	50	43	5.1	13.9	57¾-42¼
Lone Star Gas	2.24	2.39	2.06	2.13	1.80	1.80	40	38	4.7	15.9	46⅞-35⅜
National Fuel Gas	1.47	1.91	1.37	1.13	1.15	1.20	21	22	5.4	11.4	24⅞-21
Oklahoma Natural Gas	1.64	1.93	1.92[1]	2.22[1]	1.24	1.24	30	27	4.5	13.9	30⅞-24⅞
Peoples Gas Lt. & Coke	3.05	4.04	1.96	2.09	2.07	2.30	58	63	3.6	15.5	66½-49¾
United Gas Corp.	2.41	2.27	1.92	2.22	1.50	1.50	37	28	5.3	12.3	42⅞-27⅝
Retail Distributors											
Alabama Gas Corp.	2.56	1.85	1.95	2.53	1.60	1.60	31	28	5.7	15.1	35 -27½
Brooklyn Union Gas	1.68	1.67	1.00	1.09	1.12	1.20	26	27	4.4	16.1	30¾-24¾
Laclede Gas Co.	1.30	1.10	1.24[1]	1.45[1]	.90	1.05	21	22	4.7	20.0	23½-18¼
Northern Illinois Gas	1.41	1.80	.74	.87	.97	1.20	31	34	3.5	18.8	34⅞-25⅝
Pacific Lighting	2.73	2.64	2.97[1]	3.03[1]	2.40	2.40	49	48	5.0	18.1	56¼-45⅞
Washington Gas Light	3.37	3.50	4.22[1]	3.90[1]	2.24	2.24	50	47	4.7	13.4	54½-45½

*—Based on latest dividend rates.
†—Based on 1959 earnings per share.
N.A.—Not available.
1—12 months ended March 31.
2—Plus stock.
3—New annual rate after 50% stk. div. 6/16/60.
4—Adjusted for 50% stock div. 6/16/60.
5—Estimated.

Pipe Lines

El Paso Natural Gas now merged with Pacific Northwest Pipeline. The system serves the entire west coast. Canadian authorities have approved additional sale of gas to company and United States approval expected. Activities in non-regulated field expanding.

Mississippi River Fuel: Recent rate case settlement should provide stability to earnings. Company has acquired 20% of Missouri Pacific Railroad stock for investment purposes.

Northern Natural Gas; has obtained Federal Power Commission approval for major two year expansion program including authority to serve Superior and Duluth, reserves and undegound storage materially enlarged last year.

Panhandle Eastern Pipeline; conservatively capitalized and operated, but company is subject to multiple regulatory problems. Settlement likely to require court decisions and will require extended period. Reversing past procedure company and its subsidiary will embark on major expansion programs.

Southern Natural Gas: earnings to rise sharply this year but subject to FPC review. Additional rate increases probably will be required. Has sizable gas reserves and Off-Shore Subsidiary believed to be profitable.

Tennessee Gas Transmission derives two-thirds of revenues and earnings from regulated gas sales and one-third from diversified interests in petroleum industry. Progressively managed and growing rapidly. Subsidiary Midwestern Gas Transmission recently authorized to serve Chicago market and import gas from Canada.

Texas Eastern Transmission earnings subject to pending rate cases and settlement attempt appears to have failed. Operation of "Little Big Inch" encouraging as purchasers build terminal facilities along the line.

Texas Gas Transmission has minimum rate problems although an application for an increase is pending before the FPC. Has small, but well-run production subsidiary.

Transcontinental Gas Pipeline: New York and Atlantic Seaboard cities still major market but increasing sales in the southest. Major underground storage fields and highly efficient pipeline aid in continued growth of earnings.

Integrated Companies

American Natural Gas; combination pipeline and distributor serves Detroit and Milwaukee. Greater quantities of purchased gas are permitting higher earnings although a portion of them are subject to review by regulatory bodies. A subsidiary has agreed to purchase sizable quantities of gas from Canada.

Arkansas-Louisiana Gas; long term prospects for this combination utility and industrial operation continue favorable. Merger proposed with neighboring utility system could provide broader market for air-conditioner sales. Also produces and refines petroleum, manufactures cement and produces heating and control equipment.

Colorado Interstate Gas is proposing to expand its system at a cost of $90 million to supply west coast market. Opposition from existing customers is causing delay in obtaining FPC approval. Rate situation remains stable.

Columbia Gas System; delay in completion of corporate re-alignment continues to hamper settlement of complicated rate problems. At present system has over 40 rate cases pending.

Consolidated Natural Gas rate settlements with major cities will be beneficial but higher gas costs anticipated this year may limit earnings improvement. For long term company can translate growth of industrial Ohio into higher earnings.

Lone Star Gas; combination of minor rate increases and discovery of new reserves should be beneficial over coming years. Look for continued modest improvement in 1960.

National Fuel Gas: Integrated distributing utility in northern New York and parts of Ohio and Pennsylvania. Higher dividend provides reasonable yield and has modest growth prospects.

Oklahoma Natural Gas; well operated company in moderate growth area. Look for continued advances in earnings and dividends over period of years.

Peoples Gas, Light & Coke; solution of gas supply problem and settlement of most rates has enabled company to report sustained increase in earnings. Outlook for coming year is above average for the industry.

United Gas Corporation; major integrated gas system serving the Gulf Coast including many industrial customers. Recently issued preliminary rate order considered adverse and will undoubtedly be challenged in the courts. System strong financially.

Retail Distributors

Alabama Gas; rate orders issued by state commission considered favorable and should provide basis for long term earnings growth.

Brooklyn Union Gas: Temporary decline to earnings caused by local taxes and change in accounting required by New York State Commission. Consider company to have attractive long term prospects.

Laclede Gas: St. Louis distributor has benefited from nearby underground storage field. Obtained rate relief last year and recently negotiated settlement with major supplier which should result in price stability for some time to come.

Northern Illinois Gas; receipt of adequate quantities of gas has enabled the company to add almost 100,000 customers in past year. Aided by weather, earnings are advancing at a well above average rate.

Pacific Lighting Corporation; after two extremely mild heating seasons more normal weather has permitted a resumption of the basically rising earnings trend. Although company still must seek rate increases, new supply later this year should also be beneficial.

Washington Gas Light: Inability to obtain permission to construct underground storage field has been a great disappointment and will result in widely fluctuating earnings depending on weather conditions. Growth moderate.

ally altered the character of the business of the local gas distributor, replacing cooking and other small loads with high value heating service.

The resulting sharp increase in demand, plus the construction or expansion of the transmission systems to serve new areas started a precipitous rise in the field price for gas. Where it had sold for 3¢ it rose at an accelerating rate to 10¢ and 15¢, and newly discovered reserves in some areas now command in excess of 20¢.

Dynamic Growth

Even at these prices gas as a fuel for heating can be sold in all but certain fringe areas at a substantial discount from other fuels. The same is not true, however, for all industrial sales, especially as the price of coal (including transportation) and certain grades of oil decreased. In part, the gas industry has met this problem through enlarging underground storage facilities. At the end of 1959 there was over 2 trillion cubic feet in storage (capacity is about 2.5 trillion cubic feet) compared with only 342 billion cubic feet in 1950 with total sales of natural gas last year of about 8.8 trillion cubic feet.

By common consent of all factions of the industry heating is acknowledged to be the prime use of natural gas. ► At the end of 1959 approximately 20.2 million customers out of a potential 24.8 million used gas for heating their homes. Over the coming three years (according to estimates prepared by the American Gas Association) another 3.6 million customers will be added, of which about two-thirds will represent new home construction and the remainder conversions from other fuels. *Less than five years ago these ratios were reversed.*

Cultivation of Gas Appliance Market

Along with practically all of these installations will go water heating facilities and many cooking ranges. Until recently the demand for househeating service was so great that promotion and development of other appliances was largely ignored. With anticipated customer additions now at a more manageable rate, appliance promotion is receiving increasing attention.

Within the next few months **Whirlpool Corporation** will begin to market a complete line of nationally advertised gas appliances including ranges, clothes dryers, refrigerators, incinerators and (in 1961) gas fired air conditioners. Recently the **Norge** Division of Borg-Warner Corporation announced its intention of manufacturing a full line of branded products also. These two developments are especially significant to the gas industry which has been at a competitive disadvantage for many years while the broad line electrical merchandising firms dominated the appliance field. It will also permit the organization of reliable servicing outlets which have been lacking.

Still new, but having by far the greatest potential for development of sales, is the gas fired air conditioner. Arkla-Servel, a subsidiary of Arkansas Louisiana Gas Company has been manufacturing and selling 3½ and 5 ton residential central air conditioners for about three years, and has been more successful than any previous manufacturer having sold in the neighborhood of 35,000 units. It still remains for the industry to materially reduce the initial cost of these units, and Servel as well as others is devoting an increasing amount of research to achieve this goal. A new type of unit, using a free piston engine to drive the compressor is to be field tested by Robertshaw-Fulton this year and is believed to hold great promise. Over a period of the next ten years air conditioning could well become one of the most important sources of incremental load for the industry and as it would generally be sold during off-peak periods could materially improve load characteristics.

Financial Statistics Comparing

	El Paso Natural Gas	Northern Natural Gas
PLANT VALUE (MILLIONS) GROSS	$1,577	$592
Depreciation Reserve	262	135
Net Plant Account	1,315	457
CAPITAL RATIOS (%)		
Funded Debt to Total Capitalization *	69	57
Preferred Stock to Total Capitalization	11	13
Com. Stock & Surplus to Total Capitalization	20	30
ANALYSIS OF REVENUES (%)		
Natural Gas (Prod., Transmission & Distrib.)	78	97
Crude Oil Production	14	1
Oil Products & Other	8	2
INCOME ACCOUNT (CONSOLIDATED)		
Gross Revenue (Millions)	$452	$158
Natural Gas & Petroleum Prod. Purchased	178	59
Operating Expense	89	31
Maintenance	16	4
Depreciation, Amort., and Depletion	55	18
Development Expense	9	—
Federal Income Taxes	12	15
Net Operating Income (after all taxes)	78	25
Gross Income	79	25
Gross Income as of a percentage of total capitalization	6.3%	5.6%
Fixed Charges	$ 36	$ 6
Net Income	37	18
EXPENSE RATIOS (%)		
Ratio Depreciation to Gross Revenues	12	12
Comb. Deprec. Depl. & Maint. to Gross Rev.	16	14
Development Exp. (Expjlor. Dry Holes, etc.)	2	—
Operating Ratio (Including taxes)	82	84
EARNINGS RATIO		
No. of Times Fixed Ch'ges Earned after Taxes	2.2	3.9
Common Stock—Dividend Payout (%)	78	72

*—Includes Bank Loans for some companies.

Reserves and Sales

Reserves in the United States to meet this anticipated demand continue to rise and currently are at an all time record of 262.6 trillion cubic feet. On the basis of overall usage last year this is equivalent to a 21 year supply. Canada, in addition, currently has proven reserves of 26.6 trillion cubic feet, but this is believed to be only a fraction of the ultimately recoverable quantity. While these are impressive figures it must also be noted that the length of reserve life has been gradually declining as usage

the Position of Leading Natural Gas Companies

Pipe Lines					Integrated Companies							Retail Distr.	
Panhandle Eastern Pipe-Line	Tenn. Gas Transmission	Texas Eastern Transmission	Texas Gas Transmission	Trans-Continental Gas Pipe Line	Amer. Natural Gas	Arkansas Louisiana Gas	Columbia Gas System	Consolidated Natural Gas	Lone Star Gas	Peoples Gas Light & Coke	United Gas Corp.	Brooklyn Union Gas	Pacific Lighting
$310	$1,565	$915	$283	$641	$785	$175	$1,285	$788	$419	$746	$887	$202	$792
113	308	168	67	88	143	57	266	201	132	207	281	47	141
197	1,257	746	216	553	642	118	1,019	587	287	539	606	155	651
57	60	64	62	66	61	48	57	39	52	54	57	54	41
3	14	15	13	14	—	—	—	—	3	2	—	—	17
40	26	21	25	20	39	52	33	61	45	44	43	46	42
96	60	84	96	100	100	61	97	98	84	98	89	100	100
2	8	12	3	—	—	—	2	—	8	1	6	—	—
2	32	4	1	—	—	39	1	2	8	1	5	—	—
$137	$463	$296	$116	$147	$227	$ 99	$465	$334	$125	$226	$354	$ 89	$306
56	214	145	67	64	54	26	202	164	29	55	18[illegible]	26	136
22	77	37	13	[illegible]9[1]	52	7	82	69	31	51	65[1]	24	57
5	10	7	2	—	8	1	19	10	5	8	—	5	12
10	53	32	8	15	23	5	34	20	14	23	27	4	16
—	—	—	3	—	—	1	—	—	4	—	8	—	—
16	18	20	6	13	30	11	39	17	10	31	13	7	22
23	75	46	12	18	41	18	65	36	21	38	43	11	33
23	79	48	12	19	43	19	65	38	22	40	44	11	34
10.5%	6.0%	6.0%	5.9%	5.7%	6.6%	14.9%	6.4%	6.1%	7.3%	7.4%	6.4%	7.1%	5.3%
$ 5	$ 27	$ 22	$ 4	$ 11	$ 15	$ 3	$ 24	$ 9	$ 6	11	15	3	9
23	52	24	8	18	27	16	40	28	16	24	29	8	23
8	11	10	7	10	10	5	7	6	11	10	8	7	5
11	14	13	9	—	13	6	11	9	16	13	—	13	9
—	—	—	2	—	—	1	—	—	3	—	2	—	—
83	83	84	89	79	81	79	86	89	82	83	87	88	89
5.6	3.0	2.1	3.1	1.6	2.8	6.3	2.8	4.2	3.6	3.5	3.0	3.6	3.7
54	85	69	60	80	57	59	71	71	75	56	66	71	90

1—Combined operating and maintenance expenses.

continues to rise and drilling activity is reduced. Thus far it is probably safe to say the lower rate of drilling reflects the world oil situation, but the inability of producers to obtain a firm statement as to prices they may charge for gas, sold subject to Federal Power Commission jurisdiction, is also beginning to have an effect. Fortunately such developments are gradual and there appears to be little in the reserve picture that will stunt the prospect for almost doubling gas sales in the next ten years.

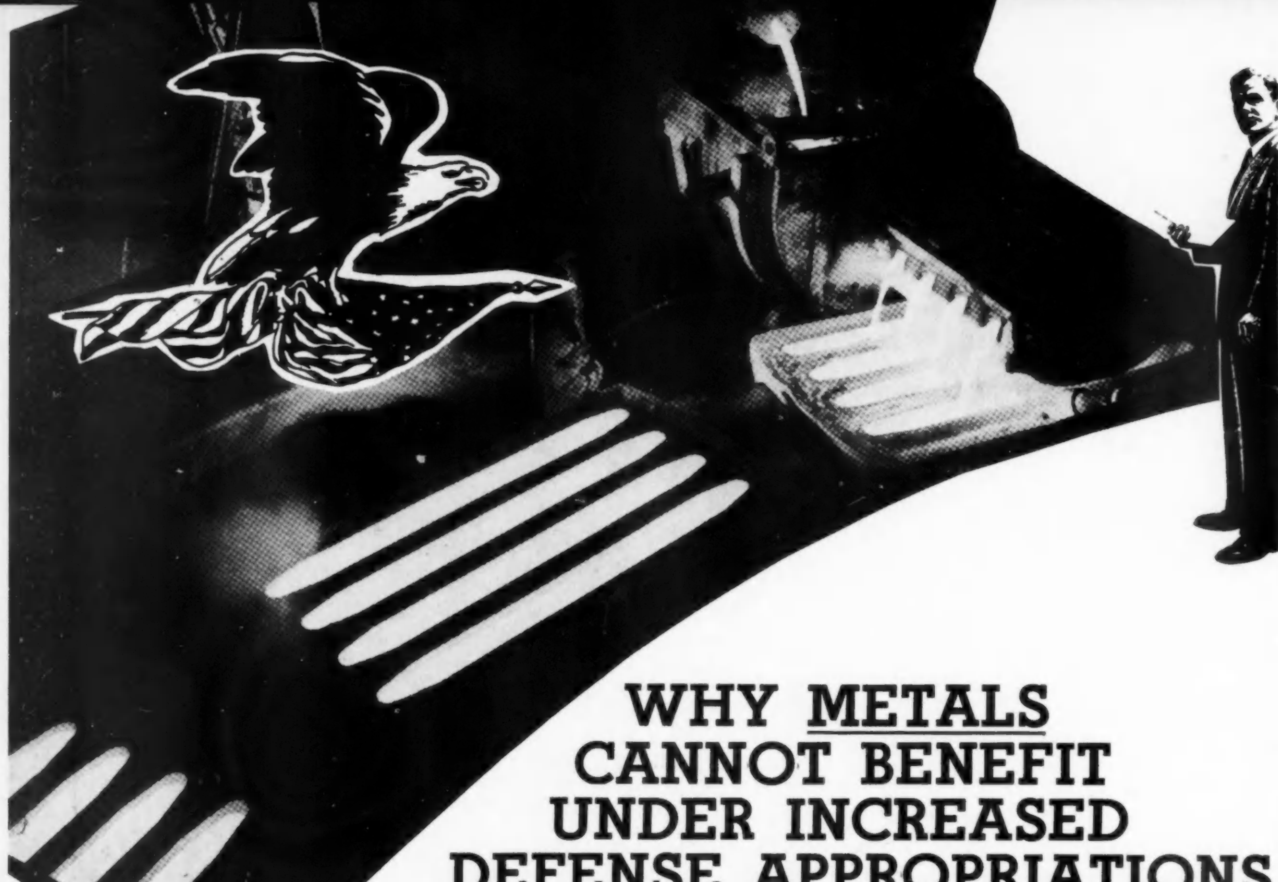
New Pipeline Construction

For the year 1960 pipeline construction expenditures are estimated at just under $2 billion, or slightly more than last year and the longer range forecast anticipates a level close to the present budget for several years to come. The dominant items in the construction plans now are extension of distribution mains and underground storage fields rather than wholly new lines as was the pattern in the past.

Over the coming ten years, for example, almost $2 billion is to be spent for development of underground storage areas. The size of the overall program both past and future may be readily visualized by the following figures; ► at the end of 1950 total investment in the gas industry was $7 billion; ► by the end of this year it will have advanced almost 210% to $21.5 billion and by 1969 is expected to increase another 110% to $45 billion.

Sales to Industry

It was stated above that gas being sold to industrial customers in some areas was nearing a competitive price ceiling, and this is becoming increasingly true where the use is for fuel. New devices and broader research activity in use of gas for industrial processes gives promise of a growing market also. ***Some of the most auspicious developments have occurred in the steel industry where, for example, Jones & Laughlin Steel Corp. increased iron production by 20% while using 30% less coke and adding 5% to the natural gas used for blast furnace*** *(Please turn to page 388)*



WHY METALS CANNOT BENEFIT UNDER INCREASED DEFENSE APPROPRIATIONS

By CALEB FAY

► **No Solution for Basic Non-Ferrous Metals**
► **Some Hope for Specialized Glamor Metals**

THERE appears to be little doubt that Congress will authorize additional funds for defense, perhaps as much as $2 billion, but not the $3 billion bandied about. Even without involving Congressional action, funds are available for increased defense spending. The question naturally arises, ► Will this benefit the presently ailing non-ferrous metals industries? ► Specifically, will it strengthen the demand for copper now seemingly headed for over supply? ► Will it call for increased tonnages of zinc and lead whose producers have been asking for higher tariffs to save the domestic mines? ► Will it bring back capacity operations for the aluminum companies who have been operating at 75 to 85 per cent since the first of the year and have little expectation of reaching a higher rate for months ahead?

The answer rather regretfully must be in the negative. There is scant reason to think that the military will ask for increased amounts of the older non-ferrous metals either for immediate use or assurance for future needs. The Government appears to possess ample stockpiles acquired before and after the Korean War. Exact figures are lacking but tolerably good estimates are available.

For *copper* it is believed there are over one million tons in the government stockpiles. That's about equal to ten months production from domestic mines.

For *zinc*, Washington has at least 1,250,000 tons locked up and it may be more.

The figures for *lead* is close to one million tons. Aluminum is even higher.

Because of "put" contracts to the Government by the three major producers, Washington has acquired close to 1,800,000 tons during the last ten years with more to come from a newer producer, Harvey Aluminum. Some concern over this was recently voiced by the president of the Aluminum Company who referred to the possible disposition of any excess aluminum now in the Government stockpile as an uncertain aspect of the domestic supply picture for the metal.

So large is the zinc stockpile that Government buying ended over two years ago. The total value of all metals in the national stockpile is estimated at over $6 billion, although it has now stopped growing.

Every so often the alarm is sounded that Washington proposes to sell some of the stockpile metals and fears are aroused over the effect on the market. There seems to be no reason to fear this will occur. The major part of the stockpile is definitely locked up, to be used only in a national emergency. A supplementary stockpile could be disposed of but only under procedure that would not disturb the markets.

The British Government has shown the way. It proposed early this year to add aluminum and tin to the list of commodities it wants to shed from its stockpile but it is in no hurry to do so, and will extend its sales on a gradual scale through 1964.

The point needs little emphasis that no responsible government would give any consideration to reducing its stockpile of the metals if it were thought they would be vital to possess in a modern war. But foreseeable conditions today with nuclear and missile warfare are different from World War 2 and wholly removed from conditions that confronted the Powers in World War 1. Military hardware then called for vast tonnages of copper and zinc for brass cartridges and the like. They are of less consequence now. It is true of course that copper enters into missile manufacture for special needs but not in tonnage amounts. The future war, should it come will, be mercifully—or mercilessly—short and probably decided by weapons in which the non-ferrous metal will have but a minor role.

Hence it seems improbable that increased defense spending will have much direct impact on copper, lead, zinc, and aluminum markets. It appears illogical to think the Government would inaugurate purchases of these metals to augment the stores now possessed with the knowledge that further large supplies are expected to come normally on the market if present prices are maintained without the need of higher price levels. There is hardly a major producer today who would not be glad to settle for the rest of the year on 30-33 cent copper, 13 cent lead and zinc, and 26 cent aluminum.

Outlook for the Glamor Metals

Nevertheless there are other metals besides the foregoing that could benefit very largely from stepped up defense appropriations. These include the specialty metals, relatively new or not yet produced on a commercial basis. These have properties and characteristics not available in the older metals and appear to be a "must" in the missile age. Their prices are high, some of them fantastically high by comparison with the older metals but they do not compete on a price basis. The Government is keenly interested in acquiring some of these for special stockpiles and it is likely that every encouragement will be given producers to increase their output of them. Defense funds might well be devoted for this purpose.

Companies Identified With The Leading Glamor Metals

Metal	Company	Interests
Beryllium	Beryllium Corp.	Major
	Brush Beryllium	Major
Columbium-Tantalum	Fansteel Metallurgical	Major
	Kawicki Chemical	Minor
	DuPont	Minor
	Union Carbide	Minor
	Molybdenum Corp.	Important
Molybdenum	American Metal Climax	Major
	Kennecott Copper	Minor
	Molybdenum Corp.	Minor
Zirconium	Carborundum	Minor
	Wah Chang Corp.	Minor
	Columbia National	Important
	Mallory Sharon Metals	Important

Such specialty metals would include *beryllium, columbium, zirconium,* and *tantalum* among the lesser known metals and *titanium, tungsten* and *molybdenum* among the older metals. These possess definite qualities that make them suitable for manufacture of missiles and satellites. An eminent authority, Dr. Francis H. Driggs, has said that these metals possess one common characteristic; they represent the ultimate in certain desirable physical, chemical or electronic properties, or a combination of these properties, which are essential for successful developments in these new fields.

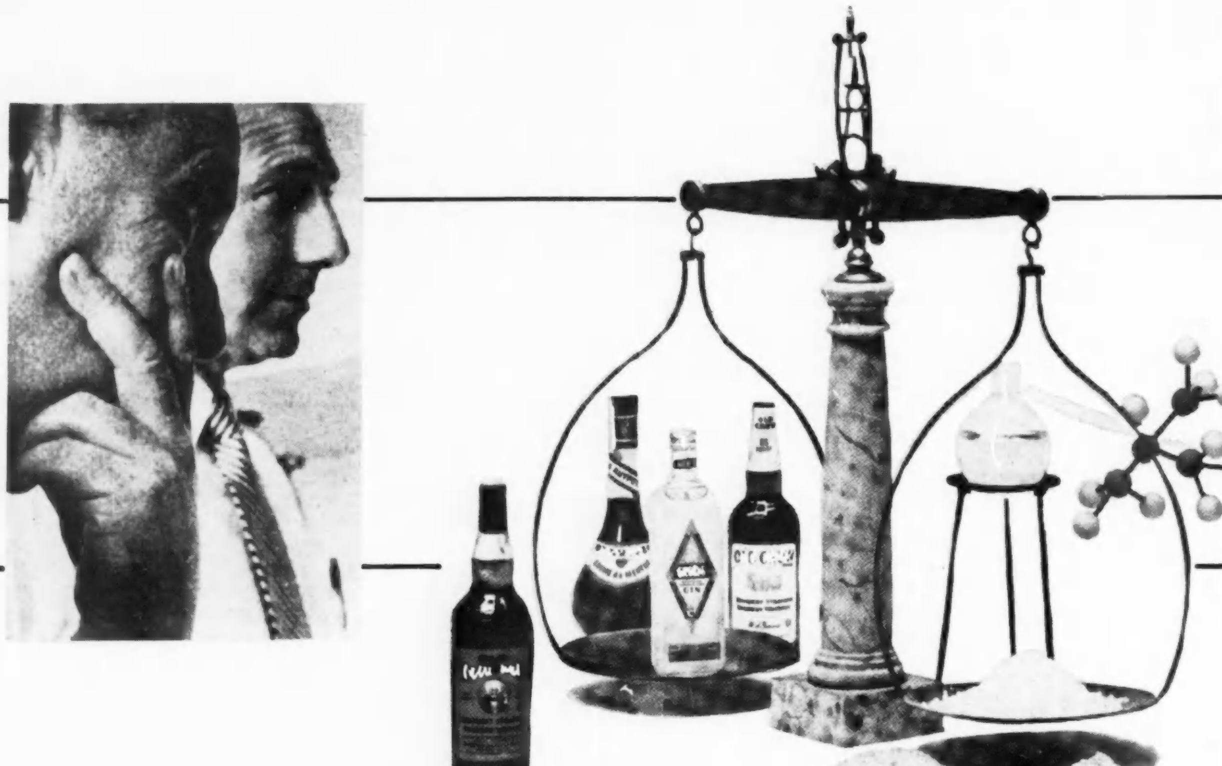
For example, in the field of missiles and satellites, Dr. Driggs points out that the essentials for utilization include low density, high strength at high temperatures and electronic properties contributing to miniaturization.

High density would call for uranium, tungsten, and tantalum. Strength at high temperatures would find an answer in tungsten, tantalum, columbium and molybdenum. Electronic properties contributing to miniaturization would be found in tantalum, silicon, germanium. For meeting corrosion resistance at high temperatures the designer would look for zirconium, columbian, and tantalum. For low weight to strength ratio, beryllium and titanium are outstanding.

Beryllium has an interesting future in the missile field. It is being used extensively and has been of great value in guidance systems. In the field of fighter aircraft, beryllium's weight advantage translated into operating capacities is estimated at an 8 percent superiority in altitude and a 16 percent increase in range over a mach 2.5 fighter fabricated in steel. Its popularity in the space field is based on the need for using a material that dissipates heat quickly, not only at supersonic speeds but also for entering the earth's atmosphere. On the other side of the picture is its cost, about $72 a pound, its toxicity, and its lack of ductility. Some 30 Government-sponsored research programs are now working on the problems involved in its use as a structural material. If these can be solved, by using the metal in structural parts for transport planes the airframe weight would be reduced about 50 per cent compared with conventional alloy structures and the range increased about 40 per cent.

Investors who are convinced that increased defense funds will find their way into the metals may have a hard time to find companies whose activities are wholly devoted to a specific specialty metal. The problem is easy for beryllium at this time as only **Beryllium Corporation** and **Brush Beryllium** count in this field. Columbium is identified with **Fansteel** and **Molybdenum Corporation,** but such giants as **du Pont** and **Union Carbide** are also included. **Fansteel** dominates in tantalum. Zirconium has a number of big-name suppliers.

It seems reasonable to assume that present efforts to increase the supply of these metals will continue at an accelerated pace. Advances and growth in the next decade are likely to exceed by many times the total growth and development since they first appeared from the laboratory. A portion of defense funds may well be expected to speed up work in these fields, by special incentives, as originally done with uranium or guaranteed markets as was done for tungsten a few years ago. END



COMPETITIVE STRUGGLE FORCES DISTILLERS INTO OTHER FIELDS

By JOHNSON K. PIERCE

- ► **The villains in the picture are still the bootlegger, the moonshiner and the tax collector**
- ► **How fare National Distillers and Schenley**
- ► **Distillers-Seagrams vs. Hiram Walker**

LIKE many others, principal representatives of the liquor group have lost favor with the investing public this year and have retreated to lower levels. Yet from all available information, the 1960 outlook is not nearly as unpromising as market behavior would lead one to believe. It must be assumed, therefore, that the decline this year represents a part of the general readjustment to more modest price-earnings ratios.

Although numerous fundamentals have improved in the last year or two, distillery executives are disappointed that several serious handicaps have not been solved—at least partially. For one thing, competition from "moonshiners" has become increasingly severe. Secondly, continuation of the record-high excise tax (adopted as an emergency measure in the Korean crisis) is keeping retail prices of whiskey at unduly high levels—and continues to encourage bootlegging. In other words, Uncle Sam is not only providing the inducement to illicit production of intoxicants, but is making little or no headway in choking off these operations.

Combination of the top excise levy of $10.50 per proof gallon and a seeming increase in the flow of illegal beverages into trade channels, poses a problem that tends to minimize the attraction of liquor stocks as investments. Growth definitely has been retarded, since consumption of distilled spirits on which excise taxes are paid, barely has kept pace with expansion in the economy, and still remains at a figure below the 1946 peak of 231 million gallons. Illegal whiskey has been estimated to account for between 25 and 30 per cent of the tax-paid output, roughly, an additional 50-to-60 million gallons. If the industry could capture this market, the outlook would be rosy. It is true the industry's most troublesome problem—that of relief from enforced liquidation of aged inventories—has been removed by legislation, but there has been no significant improvement in sales. Therefore, stocks of whiskey remain excessive and constitute a financial burden in that storage facilities and insurance must be

provided. Actually the action by Congress in extending the period in which distilled spirits may be held in bond to twenty from eight years seems to have encouraged overproduction. Records indicate that output last year considerably exceeded consumption, thereby adding to inventories.

Enactment of the Forand bill, which relieved the industry of the threat of costly liquidation of aged whiskeys on which taxes would have been required at the end of eight years, contributed to a measure of enthusiasm for liquor stocks about two years ago. Representative issues rose from 40 to 100 per cent or more, but in the subsequent adjustment that began last summer much of the advance has been lost. Representative issues are more realistically appraised and now have greater appeal for long term holding for defensive purposes and for income.

Trend Toward Diversification

Moreover, the difficulties encountered by the industry in generating normal growth have persuaded managements to consider diversification in allied fields.

National Distillers & Chemical has made impressive progress in lessening dependence on distilling. In fact, projections call for the company's chemical activities to contribute 40 per cent or more of sales this year and a significant proportion of total earnings.

Schenley has sought diversification in pharmaceuticals as well as in wines and beer (through an investment in Pabst Brewing), but the distilling business still constitutes the company's principal activity.

Distillers-Seagrams Corporation has sought to diversify interests by a venture in oil producing operations, but for the time being this move has proved something short of spectacular. More on the subject of diversification will be mentioned in a discussion of individual companies.

Change in Liquor Tastes

In addition to serious problems already mentioned, the industry has had to adjust its operations in the postwar years to a steady shift in consumer preferences. This change has had considerable effect on sales trends of almost every major factor in the industry. The public has been steadily reasserting its preference for "straight" whiskey instead of blends. When wartime curbs were placed in effect, blends were substituted for straights to a great extent with the result that soon after the war, blends accounted for about three-quarters of whiskey sales and even as recently as 1949 the proportion was about two-thirds. Now blends represent scarcely more than 30 per cent and straights almost as much. At the same time, demand for Scotch and Canadian whiskeys has surged forward and vodka consumption has become increasingly important. Use of gin also has grown impressively.

The impact of shifting preferences has affected companies differently. ► Distillers-Seagrams, for example, has been adversely affected, since this distiller flourished in the wave of popularity of blends. Sales reached a peak in 1953. ► National Distillers, on the other hand, gained the most from a rebirth of popularity for straights. ► Schenley benefited more moderately. ► Hiram Walker-Gooderham suffered from a declining demand for blends, but felt the stimulating effect of a vigorous demand for Canadian and Scotch brands.

Merchandising techniques—The last decade has been characterized not only by keen competition in merchandising techniques, but also in developing broader lines of brands to serve a diversified market. All major companies offer straights as well as blends and have come up with vodkas, while both National and Schenley have moved into the expanding field of Canadian and Scotch lines. Promotional activities have expanded to support distribution of new products and to build up consumer interest in

Statistical Data on Leading Distillers

	Full Years — Net Sales (Millions) 1958	1959	Net Per Share 1958	1959	1st Quarter Earned Per Share 1959	1960	Dividend Per Share 1959	Indicated 1960	Price Range 1959-60	Recent Price	Div. Yield
American Distilling	$81.1[1]	$ 89.7[1]	$3.45[1]	$4.12[1]	$1.96[2]	$2.54[2]	$1.60[9]	$1.60	50½-34⅞	47	3.4%
Brown-Forman Distillers	91.4[4]	92.4[4]	1.87[4]	2.88[4]	.51[5]	.64[5]	.80	.40[10]	18 -14 [12]	14[12]	2.8
Distillers Corp. - Seagrams	704.5[3]	731.3[3]	2.94[3]	3.11[3]	2.36[6]	2.29[6]	1.70	1.70	36¾-29¼	29	5.8
National Distillers & Chem.	524.3	575.5	1.76	2.23	.54	.54	1.10	1.20	35½-28¼	29	4.1
Publicker Industries	132.6	118.3	d.60	d.61	d.18	d.08	[11]	—	15 - 8¼	10	—
Schenley Industries	497.5[8]	460.0[8]	2.95[8]	3.07[8]	1.67[7]	.95[7]	1.00[9]	1.00[9]	45½-21⅝	23	4 3
Walker (H.) - G. & W.	384.0[8]	412.1[8]	2.54[8]	2.76[8]	1.43[7]	1.50[7]	1.75	1.40	41½-33¾	36	3.9

d—Deficit.
1—Year ended Sept. 30.
2—6 months ended March 31.
3—Year ended July 31.
4—Years ended April 30.
5—6 months ended Oct. 31, 1958 & 1959.
6—9 months ended April 30.
7—6 months ended Feb. 28.
8—Year ended August 31.
9—Plus stock.
10—Class "A" & "B".
11—Paid 5% stock.
12—Class "A".

Company Ratings

	Rating		Rating
American Distilling	B2	Publicker Inds.	D3
Brown-Forman	C3	Schenley Inds.	B4
Distillers Corp.-Seagrams	B2	Walker (H.) G.&W.	B2
National Distillers	B1		

RATING KEY:
A—Best grade.
B—Good grade.
C—Speculative.
D—Unattractive.
1—Improved earnings trend.
2—Sustained earnings trend.
3—Earnings up from the lows.
4—Lower earnings trend.

regular products. *In short, the scramble for the consumer dollar foreshadows higher operating costs and narrower margins.*

1960 Outlook

Before turning to a detailed discussion of prospects for individual companies, it may be well to comment briefly on current conditions and the outlook for the industry over the remainder of 1960. Statistics relating to principal distillers are shown in the accompanying tabulation.

Prospects for this year are regarded as reasonably promising. With personal income rising to new peaks and leisure time steadily growing, the economic background can be deemed favorable. Moreover, that segment of the population supposed to constitute the major market for alcoholic beverages—between the ages of 20 and 45—is once again expanding rapidly after several years in which the decline in births during the depression had a retarding effect. Indications thus point to a further rise in consumption of hard liquor to 230 million gallons or more, possibly topping the 1946 peak.

Results of individual companies will be affected by factors other than a mere enlargement of sales, as pointed out earlier. Shifts in consumer preferences and progress in diversification of activities point to a wide divergence in operating results for the principal distillers discussed in this article. This may be an opportune time to turn to a discussion of individual companies and direct attention to progress in diversification.

National Distillers & Chemical set the pace in this attempt to minimize dependence on alcoholic beverages. Determining to take advantage of a knowledge of chemicals, management launched its program shortly after the Korean adjustment, and started its initial polyethelene plastic plant about five years ago. Facilities have been enlarged from time to time until by the end of this year it is expected that the company will be the second largest factor in polyethelene, second only to Union Carbide. Polyethelene has achieved big strides in packaging and represents one of the most rapidly growing aspects of the chemical industry.

From all indications, National is about ready to embark upon another vigorous expansion program, possibly through acquisitions. To set the stage for the contemplated broadening of activities, the company recently acquired from P. R. Mallory & Co., the latter's 26 per cent interest in Mallory-Sharon Metals, thereby giving National Distillers a 60 per cent controlling interest. Name of the company, in which Sharon Steel retains its 40 per cent holdings, was changed to Reactive Metals, Inc.

One result of the transaction is that the subsidiary begins operations under National's directions with a carryforward tax credit of about $6.5 million. To utilize tax advantages it would be desirable to obtain profitable enterprises to combine with Reactive Metals so that credits could be applied toward reduction of tax liabilities of the profitable enterprise. Management has indicated that steps would be taken to fill this void. In the meantime, economy measures have been instituted to bring about reduction of operating losses of the subsidiary, and it is hoped that even under present conditions the subsidiary can be placed on a nominally profitable basis.

With benefit of anticipated improvement of margins in chemicals, earnings are being projected at about $2.60 to $2.70 a share this year, compared with $2.23 for 1959. In the first quarter net profit held even with the first three months of last year at 54 cents a share. Dividends seem likely to remain at the indicated $1.20 annual rate until expansion of chemical facilities has been completed.

Schenley Industries, Inc., has proceeded cautiously in diversification efforts. A subsidiary, Schen-Labs Pharmaceuticals, distributes antibiotics made by others and derives income from royalties on patents on production processes, but progress in drugs has been comparatively slow. Other non-alcoholic products include livestock and poultry feeds as well as barrels for its own use, and for sale in the outside market. In addition the company is an important factor in the wine industry and holds an interest in Pabst Brewing as well as in Austin, Nichols & Co.

Operating results have been disappointing this year in spite of improvement in margins. Net profit for fiscal 1960 ending August 31 is expected to fall sharply from the $3.07 a share reported for 1959. Losses caused by a strike in late 1959 are estimated to have exceeded $3 million, or 50 cents a share, while sales have failed to come up to expectations in recent months. Since accounts receivable have been mounting, it has been suggested that customers may have been overstocking inventories for retail distribution. With inclusion of a non-recurring profit of 24 cents a share, earnings in the first half dropped to 95 cents from $1.67 a share a year earlier.

The worse-than-average retreat in Schenley from last year's recovery high is attributed not only to the unexpectedly poor results forecast for 1960 but also to disappointment among holders over the change in dividend policy. Instead distributions in common stock, such as paid in 1958 and 1959, the company created a new issue of preferred and cash distributions were supplemented by payments in the senior issue of eight shares of 50-cent convertible preferred for each 100 shares of common. Whereas the payments in common stock were non-taxable as income, the preferred is subject to income levies and is worth less in the market than the previous payments in common. Chances of an increase in the regular 25-cent quarterly payments are considered unpromising.

Distillers Corp.-Seagrams, the largest Canadian distiller, is a leading factor in this country. It has been estimated that as much as 90 per cent of sales can be accounted for in United States markets, but only about half of net income is derived from this area, the other half being contributed by Canadian and overseas activities. In a move to diversify operations and to benefit from favorable tax provisions for oil companies, Distillers undertook exploratory operations. Results have been comparatively unimportant from the standpoint of profits.

With indications pointing to larger sales this year, net profit for fiscal 1960 ending July 31 is expected to surpass last year's $3.11 a share, but may fall short of the 1955 figure of $3.54 a share. In the period immediately after the war earnings ranged well above $4 a share, as a rule. Dividends have held at $1.70 annually for several years, including regular quarterly distributions of 30 cents and year-end extras (paid in November) of 50 cents a share.

Hiram Walker-Gooderham & Worts, Ltd., second largest Canadian distiller *(Please turn to page 392)*

M W S

Answers to Inquiries...

The Personal Service Department of THE MAGAZINE OF WALL STREET *will* answer by mail or telegram, a reasonable number of inquiries on any listed securities in which you may be interested or on the standing and reliability of your broker. The service in conjunction with your subscription should represent thousands of dollars in value to you. It is subject to the following conditions:

1. Give all necessary facts, but be brief.
2. Confine your requests to *three listed securities at* reasonable intervals.
3. No inquiry will be answered which does not enclose *stamped, self-addressed envelope.*
4. No inquiry will be answered which is mailed in our postpaid reply envelope.
5. Special rates upon request for those enquiring additional service.

Socony Mobil Oil

"I am a subscriber to the Magazine of Wall Street and urgently need your counsel. In 1952 I started acquiring Socony Mobil Oil common and continued to buy from time to time until the autumn of 1956. My average cost is 30¼. I still hold this stock and have received good dividends over the years. However, for over a year, Socony has apparently been in a gradual but fairly steady downtrend. The recent market price was about 35. From what I have read, it appears that the petroleum industry as a whole, is overstocked, with the future cloudy, to put it mildly. Would you advise retention or would I be wiser to sell, before Socony drops below my cost price?"

M. H., Clearwater, Florida

We can readily understand your deep concern with the market action of Socony Mobil Oil, as all major oil stocks have been in a downtrend for over a year and even when the general market was advancing. We have commented on the petroleum industry situation from time to time in our magazine and in our June 10 issue in the "For Profit and Income" section under the caption "Oil" on page 237 we commented briefly on the continuing overproduction of oil and the urging by some companies that there should be adequate cutbacks. In our April 9, 1960 issue we presented "An Analysis in Depth — Balanced Appraisal of the Oils — Global and Domestic", and this article included statistical data and comment on Socony Mobil Oil as well as comparative earnings and dividend record of all leading oil companies.

We will comment in depth again on the oil situation in an early issue.

Socony ranks as the second largest domestic oil company and third largest in global petroleum product sales. The company is well integrated.

Socony reached record operating levels in all phases of its global business during the first quarter of this year.

Net earnings for the first quarter of 1960 were estimated at $47.2 million or 97 cents a share — an increase of 4% over the corresponding period of 1959 or 93 cents per share. Full year 1959 earnings were $3.37 per share compared with $3.24 in 1958.

The company has budgeted almost $400 million for capital expenditures in the current year, including operation outlays and this is an increase over the $357 million expended in 1959. Earnings for 1960 should show a moderate increase over last year's $3.37 and the $2.00 annual dividend is covered by a good margin and yields about 5.7% on recent market price of 35.

As the adverse situation in the petroleum industry appears reflected in the current market price and although major oil stocks may decline further in a market reaction, in view of the expected increase in oil demand over the longer term, this good quality issue warrants retention for much better than average dividend yield and also longer term recovery prospects.

Minnesota Mining & Manufacturing Co.

"What do you think of Minnesota Mining & Manufacturing Co. as a candidate for capital gains, buying the stock after the split?"

C. L., Detroit, Michigan

Minnesota Mining & Manufacturing Co. is regarded as an outstanding growth situation. Shareholders who have held the stock over a long period of years have profited very handsomely and longer term growth prospects continue bright. However, in view of the very sharp increase in market values over the years, risks have increased. The stock is currently selling very high in relation to current earnings and dividends and the income yield is very small, as is the traditional case in all outstanding growth companies.

The stock is a good candidate for the "dollar averaging formula plan". This formula obviates the need for timing of new purchases. To illustrate this plan: if an investor has say $3000 a year to invest, this sum placed in a growth stock such as Minnesota Mining at quarterly, semi-annual or annual periods will purchase more shares when the market is lower and fewer shares when the market is higher but the regular periodic investment in a growth situation over the years should enable one to secure an average price that should prove profitable

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FOR PROFIT AND INCOME

Steels

Earnings of most steel companies may be roughly 25% to 40% under the optimistic estimates made around the start of the year. On this scaled-down basis, current price-earnings ratios of leading issues range mostly from 11 to 14, so valuations are by no means low as judged by standards heretofore applied to this cyclical field. Steel users continue to pare inventories. Output is probably near balance with consumption. So some mild business improvement could bring an upturn in steel operations within the late 1960 months. However, more basic considerations are that capacity will be excessive for some time to come; growth of per-capita consumption has been checked by the competitive inroads of aluminum, plastics and other materials, including cement in construction uses; and that a business recession is widely expected to begin at some time in 1961. The stocks seem unlikely to approach the high attained last September. They are in a rally at this writing and could recover further, if the market improves within the summer period, as it has done in the great majority of past years. It would appear to be sounder policy to aim at doing the selling of steel shares on rallies than to try for possible short-term profits.

Inside The Market

Stock groups performing better than the market in recent trading sessions and up to this writing are principally: baking, dairy products, food brands, department stores, drugs, office equipments, publishing, soft drinks, tobaccos, utilities and variety stores. Lagging groups at this time include. aircrafts, air lines, autos and auto parts, building materials, chemicals, coal, copper, machinery and metal fabricating.

Box Score

This no doubt will be a record year for total dividend payments, with the gain perhaps in the range of 7% to 9%, but recent news from individual companies has been nothing to cheer about. In May dividends were cut or omitted by 25 companies, against

INCREASES SHOWN IN RECENT EARNINGS REPORTS

		1960	1959
Chicago Pneumatic Tool	Quar. Mar. 31	$ .51	$ .43
Hertz Corp.	Quar. Mar. 31	.46	.42
U. S. Borax & Chemical	Quar. Mar. 31	.40	.33
Aluminium, Ltd.	Quar. Mar. 31	.30	.08
Cluett, Peabody & Co.	Quar. Mar. 31	1.20	.58
Joy Manufacturing	Quar. Mar. 31	.74	.65
American Bank Note	Quar. Mar. 31	.40	.28
General Cigar Co.	Quar. Mar. 31	.49	.34
White (S.S.) Dental Mfg.	Quar. Mar. 31	1.00	.81
Island Creek Coal Co.	Quar. Mar. 31	.61	.55

13 in the same month of 1959. There were increases in 42 cases, against 61 a year earlier, while extras numbered 36, compared with 54 a year ago. Data for June, a heavy month for quarterly payments, will bear watching.

Leaders

Stocks in technically-indicated upward trends at this writing include: Aldens, American Electric Power, American Tobacco, Associated Dry Goods, Brunswick Corp. Electric Storage Battery, General American Transportation, Gimbel, Hammond Organ, Macy, McGraw-Hill, Merck, Otis Elevator, Philip Morris, Procter & Gamble, Revlon, Rexall Drug, Reynolds Tobacco, Scott Paper, Sterling Drug, Upjohn.

Laggards

Stocks performing relatively poorly at this time include: American Standard, Best & Co., Carrier, Congoleum, Continental Motors, First National Stores, Federal Paper Board, Food Mart, General Bronze, Hamilton Watch, Harbison-Walker, Kennecott, Libbey - Owens - Ford Glass, Pittsburgh Plate Glass, McGraw-Edison, Rayonier, Simmons Company, Scovill Mfg., United Carbon — and almost any oil stock.

Machinery

Earlier surveys of management intentions, made by the Department of Commerce and the SEC jointly, have forecast an important rise in 1960 outlays for new plant and equipment, with the total approximating the 1957 peak level. Maybe it will come through — but results of the next published quarterly survey will be watched with uncommon interest. There are questions. How do you expand or modernize without ordering machinery? If we are in or near even a semi-boom in capital goods, why are machinery orders limping along little above 1959 levels? Domestic machine tool orders in April made a poor showing and were under the year-ago level. They remain far under the high levels of 1956-1957. If there is any gain this year, it figures to be fairly small. Machinery stocks and capital-goods stocks generally have fared worse than the industrial list so far in 1960, and basis for a significant change for the better is not apparent. We continue to think there are more appealing fields for investment money.

Retail Earnings

For the first 1960 fiscal quarter — through April 30 or thereabouts in most cases — earnings of most retailing companies were retarded as a result of poor February-March weather, partly offset later by good Easter business. However, moderate gains from a year ago were the general rule. Maintenance of them, plus the seasonally favorable final quarter, should mean good full-year profits and new peaks in a fair number of cases. Among a number of the stocks with further possibilities are Associated Dry Goods. Gimbel, Federated Department Stores, Aldens. Grant, Woolworth and Spiegel. In the first-quarter results, two exceptions were Allied Stores with net of $0.08 a share, against $0.15 a year ago; and Montgomery Ward, with profit at $0.14 versus $0.34 a year ago. In both cases sales, in line with the general trend, were substantially higher. In both also, past operating records have been sub-average.

Low-Priced Stocks

Stocks in the low-priced classification range, as every intelligent investor ought to know, from radically speculative cats and dogs to investment-grade issues. Most of the latter are low-priced because of splits or initial capitalization set-ups designed to broaden their appeal, since it is recognized that the average investor prefers low-priced or medium-priced stocks to high-priced issues in making purchases. Nobody, of course, objects to holding a high-priced stock which was bought when it was low-priced. The prospect of easing money rates and doubts about 1961 business prospects favor relatively conservative income stocks, and especially those which have at least a moderate growth potential in earnings and dividends, with high immunity to general business recessions, whereas the present outlook appears unpromising for most low-priced speculative stocks, which had a big play in earlier stages of the bull market but have now lagged for many months. Some conservative low - priced stocks with promise of moderate appreciation are Beneficial Finance, Brooklyn Union Gas, Duquesne Light, Grand Union, Household Finance, Northern States Power, Oklahoma Natural Gas, Potomac Electric Power and Wisconsin Public Service.

Chemicals

At this time prospects for the chemical industry are more so-so than dynamic, and most of the leading issues are priced at relatively high multiples of earnings. A few of the secondary stocks are reasonably priced on likely 1960 earnings and could well work higher over a period of time. A speculation worth considering is Commercial Solvents. The past record is poor, but the company has begun to benefit from a large diversification and expansion program. Profit rose to $1.02 a share last year, from 1958's $0.52, and may be $1.40 to $1.50 this year, which would be the best showing since 1951. The regular dividend rate was recently doubled from $0.20 to $0.40, following 1959 year-end extras of $0.05 and 2% in stock. The stock recently

(Please turn to page 393)

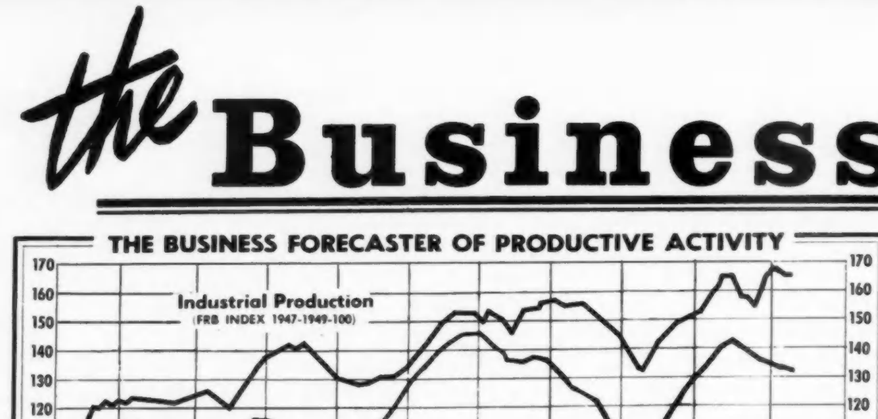
DECREASES SHOWN IN RECENT EARNINGS REPORTS

		1960	1959
Allied Laboratories	Quar. Mar. 31	$ .49	$ .72
Archer-Daniels-Midland	9 months March 31	1.65	2.70
Bestwall Gypsum Co.	Quar. Mar. 31	.24	.45
Merritt-Chapman & Scott	Quar. Mar. 31	.04	.34
Stone & Webster, Inc.	Quar. Mar. 31	.83	1.10
Western Pacific R. R.	Quar. Mar. 31	.28	.76
American Bosch Arma	Quar. Mar. 31	.34	.76
Foote Mineral	Quar. Mar. 31	.20	.56
St. Joseph Lead Co.	Quar. Mar. 31	.59	.76
Temco Aircraft Corp.	Quar. Mar. 31	.22	.27

the Business

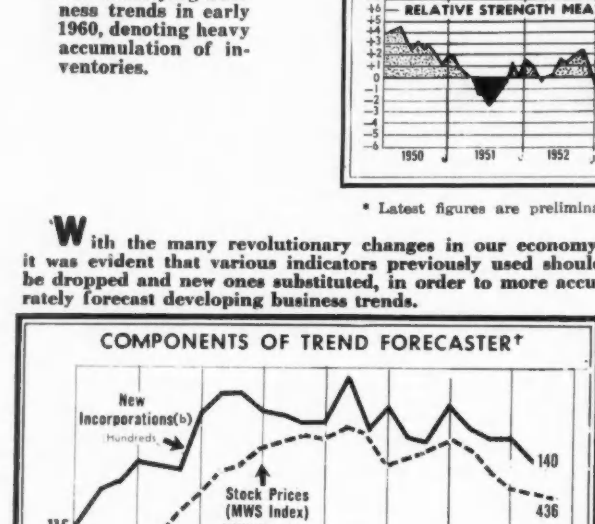
Business Trend Forecaster

INTERESTING TO NOTE — Sharp divergence between industrial output and underlying business trends in early 1960, denoting heavy accumulation of inventories.



* Latest figures are preliminary.

With the many revolutionary changes in our economy, it was evident that various indicators previously used should be dropped and new ones substituted, in order to more accurately forecast developing business trends.



(†)—Seasonally adjusted except stock and commodity prices.
(a)—Computed from F. W. Dodge data.
(b)—Computed from Dun & Bradstreet data.

This we have done in our *Trend Forecaster* (developed over a period of several years), which employs those indicators (see Components of Trend Forecaster) that we have found to most accurately project the business outlook.

As can be seen from the chart, industrial activity in itself is not a true gauge of the business outlook — the right answer can only be found when balanced against the state of our economy. The *Trend Forecaster* line does just that. When it changes direction up or down a corresponding change in our economy may be expected several months later.

The depth or height of the developing trend is clearly presented in our *Relative Strength Measurement* line, which reflects the rate of expansion or contraction in the making. When particularly favorable indications cause a rise that exceeds plus 3 for a period of time, a strong advance in general business is to be expected. On the other hand, penetration of minus 3 on the down side usually precedes an important contraction in our economy.

We believe that subscribers will find our Business Trend Forecaster of increasing usefulness both from the investment and business standpoints.

Current Indications of the Forecaster

Some slight betterment is beginning to show up in several of the leading business indicators, although this improvement is not strong enough as yet to constitute a trend. The stock market has shown the best gain, with a sharp upsurge early in June giving promise that its average for the month would be well above May levels. Among the other indices, raw industrial commodity prices, housing starts and nonresidential construction contracts have moved upward slowly, but new orders, business failures (inverted) and new incorporations are still in downtrends. Hours worked was still at a low level but it is no longer declining.

The Relative Strength Measurement, which is based on the intermediate trend of the components, has recovered somewhat from is recent low but is still under the zero level. The trend of this Measure should be watched carefully in the next few months for indications as to business prospects for the balance of the year. At present it is still indicating a high level of business until well into Autumn.

Analyst

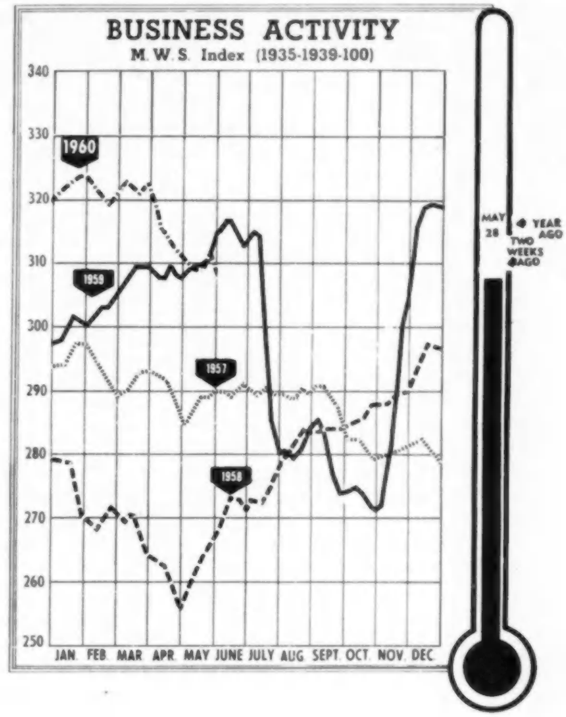
CONCLUSIONS IN BRIEF

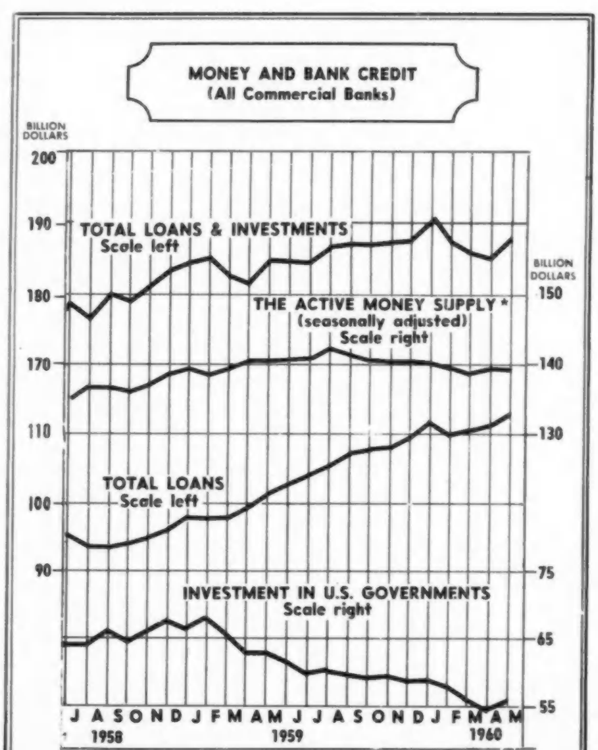
PRODUCTION—High rate of consumption enabling industry to maintain advanced level of output, despite sharp drop in steel production. Activity in the latter is stabilizing in the 60%-65% of capacity area, with a pick-up expected within sixty days as auto makers get ready to introduce new models.

TRADE—Consumer spending still high, although it has receded somewhat from the record reached in April. Rapid growth of consumer debt and rising repayment burden could affect demand later in the year.

MONEY & CREDIT—Monetary authorities cut discount rate in further move to stimulate the economy. Short-term money rates have eased, but the commercial banks' prime loan rate remains high in anticipation of increased rate of corporate borrowing.

COMMODITIES—Prices of both sensitive industrial commodities and farm products are easing off under pressure of seasonal factors. Look for firming tendencies later this Summer as industry prepares for usual Fall business pick-up.





*Demand deposits of all banks plus currency outside the banks.

THE economy has continued to mark time in recent weeks, with strength in some areas and weakness in others, adding up to a stalemate for business as a whole. Now that the Summer season is ushering in the annual period of vacation slowdown and general somnolence, any resolution of current mixed trends may well be postponed until after Labor Day.

Meanwhile, the business upturn which started twenty-six months ago, is showing signs of advancing age. Although still hale and hearty on the surface, the economy has evidently lost a good deal of the resiliency that it displayed earlier in the upward cycle and now responds rather feebly to once effective stimuli. A case in point is the almost negligible effect of recent sharp consumption gains on underlying trends. Consumer buying in April and May has been well above previous levels but this has failed to generate any improvement in new orders—the single best indicator of business prospects. These orders failed to advance in April and purchasing agents for leading companies report further declines in May. Shipments, meanwhile, have been running above new orders since December, inevitably reducing backlogs, which are now $3.2 billion under last year's peak. Unless the erosion of new orders and backlogs is halted soon, a sharp cutback in the level of business activity will become inevitable.

Business analysts are still arguing about the causes of the current lull in the economy, although there is a growing inclination to label it a minor

(Please turn to the following page)

Essential Statistics

THE MONTHLY TREND	Unit	Month	Latest Month	Previous Month	Year Ago
INDUSTRIAL PRODUCTION * (FRB)	1947-'9-100	Apr.	165	165	162
Durable Goods Mfr.	1947-'9-100	Apr.	173	175	171
Nondurable Goods Mfr.	1947-'9-100	Apr.	159	157	155
Mining	1947-'9-100	Apr.	128	125	129
RETAIL SALES*	$ Billions	Apr.	18.9	18.3	18.0
Durable Goods	$ Billions	Apr.	6.3	6.0	6.1
Nondurable Goods	$ Billions	Apr.	12.6	12.3	11.8
Dep't Store Sales	1947-'9-100	Apr.	151	140	141
MANUFACTURERS'					
New Orders—Total*	$ Billions	Apr.	30.3	30.3	31.2
Durable Goods	$ Billions	Apr.	14.4	14.6	15.8
Nondurable Goods	$ Billions	Apr.	15.9	15.7	15.4
Shipments*	$ Billions	Apr.	31.1	30.8	30.3
Durable Goods	$ Billions	Apr.	15.1	15.2	15.2
Nondurable Goods	$ Billions	Apr.	16.0	15.7	15.1
BUSINESS INVENTORIES, END MO.*	$ Billions	Apr.	92.6	92.3	87.6
Manufacturers'	$ Billions	Apr.	54.6	54.3	51.1
Wholesalers'	$ Billions	Apr.	12.8	13.0	12.1
Retailers'	$ Billions	Apr.	25.0	25.1	24.5
Dept. Store Stocks	1947-'9-100	Mar.	159	159	148
CONSTRUCTION TOTAL(t)	$ Billions	May	53.9	53.9	56.6
Private	$ Billions	May	38.1	39.2	39.6
Residential	$ Billions	May	21.0	21.1	23.8
All Other	$ Billions	May	17.1	17.1	14.8
Housing Starts*—a	Thousands	Apr.	1135	1125	1434
Contract Awards, Residential—b	$ Millions	Mar.	1480	1294	1831
All Other—b	$ Millions	Mar.	1880	1753	1847
EMPLOYMENT					
Total Civilian	Millions	Apr.	66.2	64.3	65.0
Non-Farm *	Millions	Apr.	53.0	52.4	51.4
Government *	Millions	Apr.	8.6	8.5	8.1
Trade *	Millions	Apr.	11.5	11.3	11.1
Factory *	Millions	Apr.	12.3	12.4	12.2
Hours Worked	Hours	Apr.	39.7	39.4	40.3
Hourly Earnings	Dollars	Apr.	2.28	2.29	2.23
Weekly Earnings	Dollars	Apr.	89.83	90.91	89.87
PERSONAL INCOME*	$ Billions	Apr.	397	394	379
Wages & Salaries	$ Billions	Apr.	271	269	257
Proprietors' Incomes	$ Billions	Apr.	59	58	59
Interest & Dividends	$ Billions	Apr.	39	38	34
Transfer Payments	$ Billions	Apr.	28	28	27
Farm Income	$ Billions	Apr.	15	15	16
CONSUMER PRICES	1947-'9-100	Apr.	126.2	125.7	123.7
Food	1947-'9-100	Apr.	119.5	117.7	117.7
Clothing	1947-'9-100	Apr.	108.9	108.8	107.0
Housing	1947-'9-100	Apr.	131.4	131.3	128.7
MONEY & CREDIT					
All Demand Deposits*	$ Billions	Apr.	111.2	111.1	112.2
Bank Debits*—g	$ Billions	Apr.	95.3	96.8	93.7
Business Loans Outstanding—c	$ Billions	Apr.	31.8	31.9	32.4
Instalment Credit Extended*	$ Billions	Apr.	4.4	4.1	4.0
Instalment Credit Repaid*	$ Billions	Apr.	3.9	3.7	3.5
FEDERAL GOVERNMENT					
Budget Receipts	$ Billions	Apr.	5.1	9.6	4.3
Budget Expenditures	$ Billions	Apr.	6.0	6.4	6.4
Defense Expenditures	$ Billions	Apr.	3.7	3.9	3.9
Surplus (Def) cum from 7/1	$ Billions	Apr.	(3.6)	(2.6)	(13.2)

PRESENT POSITION AND OUTLOOK

inventory adjustment that is now almost completed. The sharp reduction is stockpiling — from a $13 billion annual rate, early this year to one of $4 billion currently — undoubtedly accounts for some of the easiness in general business, but it does not explain the longer-term weakness that has been evident for almost a year in new orders, housing starts, hours worked and other leading business indicators. The monetary authorities have for some time been cognizant of the gradual weakening of our economic underpinnings and have been prescribing easier credit as the remedy for tired business. The latest step in this direction has been the recent reduction in the discount rate, which it is hoped, will result in lower interest rates and thus encourage another round of expansion. Unfortunately, this sort of medicine is slow acting at best and is rarely very effective once the economy has passed its crest. However, an easing of credit, coupled with the recent reduction in down-payments on new homes, a possible increase in defense spending and other actions that the Administration may take to revive the economy, could well succeed in prolonging the current slow, irregular advance in business at least until the Election. It is extremely doubtful, however, that moderate Government measures would have any long-lasting effect on the course of the economy.

* * *

SLUMP IN THE STEEL INDUSTRY — Steel output has dropped sharply in the first half of 1960, from an operating rate of 95.7% of capacity for the week ending January 17, to an estimated 62.3% of capacity in the week ending June 12. Although it was generally realized that the forced-draft effort to make up for production lost during the strike would not last long, the magnitude of the subsequent decline has worried some observers, who consider the course of the steel industry as an important barometer of business in general.

It is true that steel goes into an immense variety of products, but it represents only 6% of total in-

and Trends

QUARTERLY STATEMENT FOR THE NATIONAL ECONOMY

In Billions of Dollars—Seasonally Adjusted, at Annual Rates

SERIES	—1960— Quarter I	——1959—— Quarter IV	Quarter III	Quarter I
GROSS NATIONAL PRODUCT	500.2	483.5	478.6	470.4
Personal Consumption	321.1	317.0	313.3	303.9
Private Domestic Invest.	79.2	69.7	67.0	70.0
Net Exports	1.2	—0.6	0.0	—0.9
Government Purchases	98.8	97.4	98.4	97.4
Federal	52.3	52.7	53.6	53.8
State & Local	46.5	44.7	44.8	43.6
PERSONAL INCOME	393.1	386.8	381.0	371.8
Tax & Nontax Payments	47.7	46.1	45.8	44.4
Disposable Income	345.4	340.8	335.2	327.4
Consumption Expenditures	321.1	317.0	313.3	303.9
Personal Saving—d	24.3	23.7	21.9	23.5
CORPORATE PRE-TAX PROFITS		45.7	46.4	46.5
Corporate Taxes		22.2	22.6	22.6
Corporate Net Profit		23.4	23.8	23.8
Dividend Payments	13.6	13.6	13.4	12.8
Retained Earnings		9.8	10.4	11.1
PLANT & EQUIPMENT OUTLAYS	35.3	33.6	33.4	30.6

THE WEEKLY TREND

	Unit	Week Ending	Latest Week	Previous Week	Year Ago
MWS Business Activity Index*	1935-'9-100	May 28	309.3	312.0	314.6
MWS Index—per capita*	1935-'9-100	May 28	223.8	225.7	231.5
Steel Production	% of Capacity	June 4	61.9	65.6	93.7
Auto and Truck Production	Thousands	June 4	149	181	162
Paperboard Production	Thousand Tons	May 28	311	325	325
Paperboard New Orders	Thousand Tons	May 28	314	296	351
Electric Power Output*	1947-'49-100	May 28	267.1	271.4	254.7
Freight Carloadings	Thousand Cars	May 28	640	637	688
Engineerings Constr. Awards	$ Millions	June 2	648	389	316
Department Store Sales	1947-'9-100	May 28	139	138	122
Demand Deposits—c	$ Billions	May 25	58.3	58.0	60.9
Business Failures—s	Number	May 26	299	313	264

PRESENT POSITION AND OUTLOOK

dustrial production (FRB Index) so that by itself it does not have much of an effect on over-all output. The industry's current rate of operations, at far below capacity, is mainly a reflection of the sizeable excess steel plant now in existence. Actual steel consumption has never been much above 110 million tons a year. With the industry on January 1 of this year able to turn out 148.5 million tons annually, steady production at 74% of capacity would take care of a high rate of usage. Consumers are currently using more steel than is being produced, but their inventories should be down to optimum levels in a matter of weeks, at which time output should move up to the level of final consumption. With usage estimated at about 55 million tons in the second half, an average production rate of 74% of capacity would fill anticipated needs and during normal times the industry cannot expect to operate for long at much above these levels. Fortunately, operating expenses of the industry fall more rapidly than output, so that earnings should be better than the low rate of production would lead one to expect.

***Seasonally adjusted. (a)—Private starts, at annual rates. (b)—F. W. Dodge unadjusted data. (c)—Weekly reporting member banks. (d)—Excess of disposable income over personal consumption expenditures. (e)—Estimated. (f)—Estimated by Council of Economic Advisors. (g)—337 non-financial centers. (na)—Not available. (r)—Revised. (s)—Data from Dun & Bradstreet.** (t)—Seasonally adjusted, annual rate. Other Sources: Federal Reserve Bd., Commerce Dept., Securities & Exch. Comm., Budget Bureau.

THE MAGAZINE OF WALL STREET COMMON STOCK INDEXES

No. of Issues (1925 Cl.—100)	1960 High	1960 Low	1960 May 27	1960 June 3
Composite Average	482.5	429.5	440.4	439.7
4 Agricultural Implements	424.3	346.4	381.0	381.0
3 Air Cond. ('53 Cl.—100)	130.1	110.9	116.0	119.9
9 Aircraft ('27 Cl.—100)	1116.1	861.9	972.4	939.3
7 Airlines ('27 Cl.—100)	1044.6	780.7	802.7	805.6
4 Aluminum ('53 Cl.—100)	521.3	437.9	464.0	458.7
5 Amusements	250.3	209.3	248.0	250.3H
5 Automobile Accessories	531.1	444.4	460.6	476.9
5 Automobiles	157.0	109.3	109.3	109.3
3 Baking ('26 Cl.—100)	39.1	34.9	36.0	36.0
4 Business Machines	1422.6	1172.3	1343.5	1422.6H
6 Chemicals	785.6	689.4	745.5	761.5
4 Coal Mining	36.0	30.4	30.7	30.4
4 Communications	229.9	209.1	225.2	227.5
9 Construction	169.2	158.9	158.9	160.6
5 Container	1064.7	949.9	970.7	949.9
5 Copper Mining	337.7	298.4	298.4	298.4
2 Dairy Products	171.5	146.8	168.4	171.5H
5 Department Stores	146.7	135.2	145.2	146.7H
5 Drugs-Eth. ('53 C.—100)	452.7	386.8	448.3	452.7H
5 Elect. Eqp. ('53 Cl.—100)	381.0	332.9	381.0	377.3
3 Finance Companies	689.0	648.8	668.9	668.9
5 Food Brands	450.6	419.3	441.6	450.6H
3 Food Stores	270.8	250.2	255.3	257.9

(Nov. 14, 1936 Cl.—100)	High	Low	May 27	June 3
High Priced Stocks	299.9	271.9	281.6	283.9
Low Priced Stocks	653.8	564.1	570.0	567.1
5 Gold Mining	1064.2	881.7	881.7	881.7
4 Investment Trusts	170.6	145.0	146.7	145.0
3 Liquor ('27 Cl.—100)	1534.5	1188.5	1203.5	1188.5L
7 Machinery	512.8	460.5	471.0	465.7
3 Mail Order	446.1	386.9	414.2	418.8
4 Meat Packing	286.8	226.7	234.9	243.1
4 Mtl. Fabr. ('53 Cl.—100)	208.6	162.5	164.5	162.5
9 Metals, Miscellaneous	399.1	320.8	335.7	335.7
4 Paper	1237.1	956.6	956.6	982.1
16 Petroleum	736.9	609.0	609.0	609.0
16 Public Utilities	362.4	341.6	358.9	362.4H
6 Railroad Equipment	99.8	87.8	91.8	90.8
18 Railroads	70.1	57.3	58.6	57.3L
3 Soft Drinks	821.1	690.3	806.5	821.1H
11 Steel & Iron	464.9	362.6	367.3	381.2
4 Sugar	100.9	71.3	73.2	71.3L
2 Sulphur	655.9	563.1	581.7	575.5
11 TV & Electron. ('27—100)	118.3	96.6	118.3	115.0
5 Textiles	223.0	187.7	187.7	187.7
3 Tires & Rubber	255.9	204.3	222.3	222.3
5 Tobacco	190.0	182.5	190.0	190.0
3 Variety Stores	371.2	352.9	367.5	371.2
14 Unclassif'd ('49 Cl.—100)	295.1	250.3	260.0	253.0

H—New High for 1960. L—New Low for 1960.

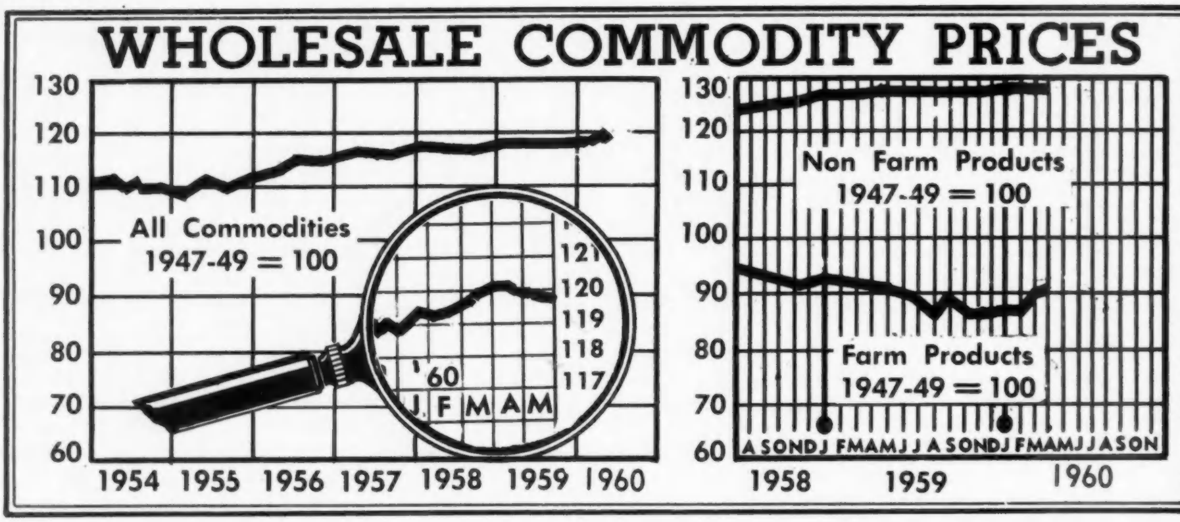
Trend of Commodities

SPOT MARKETS—Leading commodities were lower in the fortnight ending June 3, giving up most of the gains that were scored shortly after the collapse of the Summit conference. The BLS daily index of 22 such commodities lost 0.8% and all the subcomponents of the index were lower. The raw industrial materials' index gave up 1.4%, with burlap, rubber, steel, scrap, tallow and wool tops all declining, while only print cloth and tin were higher.

Among the broad rank and file of commodities, farm products declined, under the pressure of crop harvests. The BLS comprehensive weekly wholesale price index lost 0.1% in the two weeks ending May 31, although the index of non-farm commodities remained unchanged during the period under review.

FUTURES MARKETS—Futures prices gave ground on a broad front in the two weeks ending June 3, with a quieter international atmosphere contributing to the unloading. Wheat, corn, oats, soybeans, cotton, wool, coffee, hides, zinc and lead, all moved toward lower levels, while only cocoa, rubber and copper were higher.

Wheat futures were moderately lower in the period under review, with the December option losing ¼ cent to close at \$1.85. The winter wheat harvest has begun and will pick up momentum in coming weeks. From current indications, it appears that this year's total crop, both spring and winter wheat, will be well above last year's harvest. However, this is reflected in the price, with the December option selling about 12 cents under the equivalent support level.



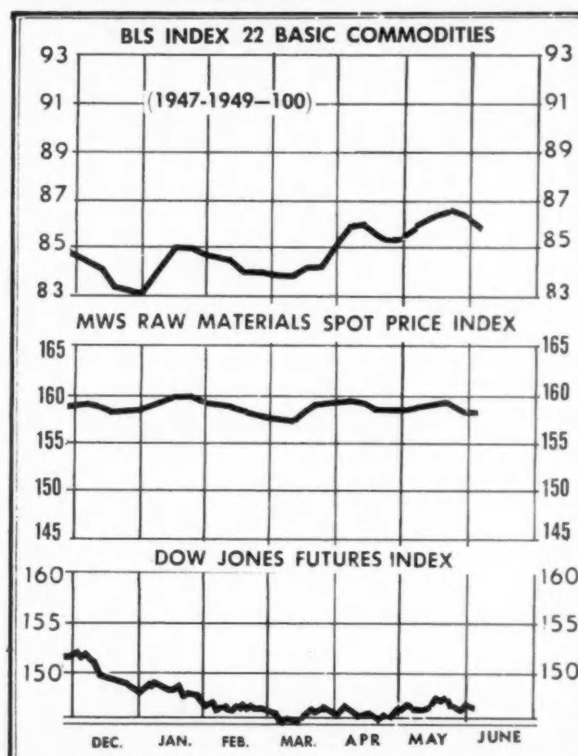
BLS PRICE INDEXES 1947-1949—100	Date	Latest Date	2 Weeks Ago	1 Yr. Ago	Dec. 6 1941
All Commodities	May 31	119.7	119.8	119.4	60.2
Farm Products	May 31	89.8	90.7	91.1	51.0
Non-Farm Products	May 31	128.4	128.4	127.8	67.0
22 Sensitive Commodities	June 3	85.8	86.5	88.2	53.0
9 Foods	June 3	77.1	77.2	82.0	46.5
13 Raw Ind'l. Materials	June 3	92.2	93.5	92.6	58.3
5 Metals	June 3	92.7	93.1	95.9	54.6
4 Textiles	June 3	80.5	82.3	79.0	56.3

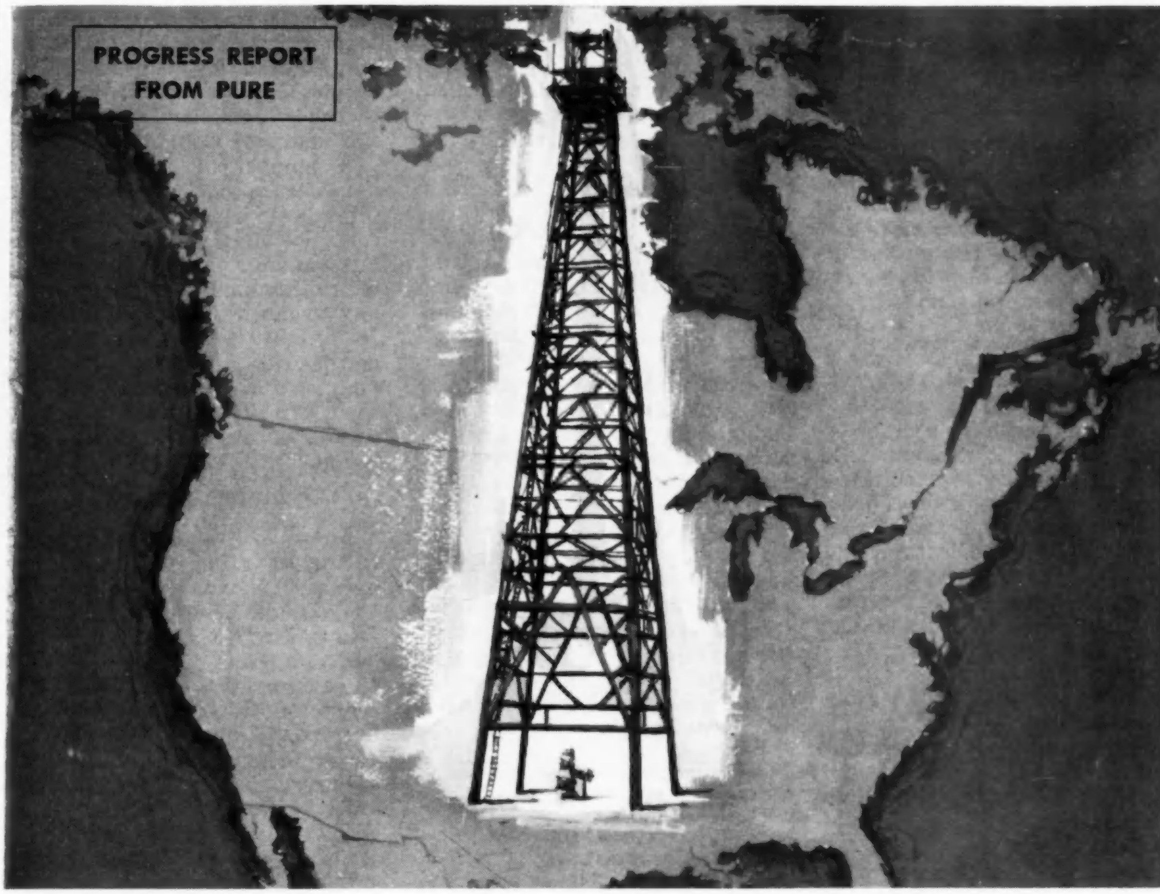
MWS SPOT PRICE INDEX
14 RAW MATERIALS
1923-1925 AVERAGE—100
AUG. 26, 1939—63.0 Dec. 6, 1941—85.0

	1960	1959	1953	1951	1941
High of Year	160.0	161.4	162.2	215.4	85.7
Low of Year	157.5	152.1	147.9	176.4	74.3
Close of Year		158.3	152.1	180.8	83.5

DOW-JONES FUTURES INDEX
12 COMMODITIES
AVERAGE 1924-1926—100

	1960	1959	1953	1951	1941
High of Year	148.7	152.7	166.8	215.4	84.6
Low of Year	144.5	144.2	153.8	174.8	55.5
Close of Year		147.8	166.5	189.4	84.1





PURE adds 379 producing wells...

The Pure Oil Company gains important new oil reserves, pipelines, and prospective fields in its purchase of Woodley Petroleum Company's assets.

Three hundred seventy-nine oil wells, delivering over 10,000 barrels of crude oil a day, are just part of the assets PURE acquires with the purchase of Woodley Petroleum Company.

PURE receives Woodley oil reserves of over 70 million barrels of crude, of which 64 per cent is in the United States and 36 per cent in Canada. These supplement PURE's own estimated reserves of 511 million barrels of crude, condensate and natural gas liquids in the U. S. and 20 million barrels in Venezuela.

In addition, PURE has natural gas reserves estimated at 2 trillion, 194 million cubic feet, not including the 70 billion cubic feet of reserves acquired from Woodley.

Other properties acquired from Woodley include leases and options on 600,000 net acres for future exploration; a minority interest in a refinery in the Twin Cities area, and interests in three crude oil pipelines totaling 530 miles in Saskatchewan and Minnesota.

PURE is happy to welcome the experienced, competent employees of Woodley into its organization. Acquisition of the Woodley properties represents an important step forward in PURE's program to expand its crude oil production and reserves.

THE PURE OIL COMPANY, 35 E. Wacker Dr., Chicago 1, Ill.

YOU CAN BE SURE WITH PURE

Natural Gas Industry Still Suffers From Growing Pains

(Continued from page 373)

operation. Possible use in electric steel furnaces in combination with oxygen is an even more exciting prospect as the output of existing furnaces could be increased by one quarter.

Investment Status

Thus, the industry still is growing and has a dynamic potential. It is neither reaching a state of maturity nor is it moribund. In fact it may be only awakening to its future as the past was dedicated primarily to providing fuel for residential house heating. The coming years can be used to exploit the fact that gas is fed into more than 20 million homes but is used only for heating. The character of the industry may be changing and its importance becoming greater.

Included in the statistical summary is a comparison of the recent prices of a selected group of natural gas companies and those at the time of the last annual review. For the most part there has been little change or slight declines; the increases are rare. It may also be pointed out that the overall market declined 7% since mid June 1949 and about 18% from the subsequent 1959 peak. The anomaly arises from the increase in earnings that almost every company reported. ***In short, the continued uncertain regulatory situation is still affecting this group and improvement is still some distance in the future.***

Viewing the present dilemma as objectively as possible, it would not seem that any satisfactory solution can be achieved without legislation materially amending the Natural Gas Act. Accommodations on some problems may be achieved within the scope of the present act and rules, but a final clarification will have to take into account the radically changed character of the industry and the enlarged scope of regulatory authority.

Interminable Legal Delays

At this time last year two key cases were mentioned as pending before the Commission; 1) The City of Detroit case, 1955, (also called the Panhandle case), which was remanded by the U. S. Circuit Court of Appeals, and 2) the Phillips Petroleum Company case, 1954, which deals with setting rates for producers. Each of these cases has inched its way along the administrative corridors, and each is still awaiting a final Commission decision not to mention two to three years awaiting challenges in the courts. A year after an examiner handed down a decision in the Phillips case the Commission still had taken no action, which prompted the company to make a compromise offer of settlement, stating that after six years it could no longer commit millions of dollars to exploration for gas if it could not know what it would be allowed to earn.

In general, it would seem that the year has provided little of a definitive nature to guide investors. Some new guideposts have been provided, however.

Considerations For The Investor

In the area of rate of return it now appears that current high costs of senior capital have been recognized and that 6 to 6¼% will be allowed to "thin" equity companies, and up to 6½% authorized for more conservatively capitalized operations. Returns of 6¾% to 8% requested by some companies will not be granted.

In this connection it is interesting to note that **Mississippi River Fuel** last month settled two pending applications, one seeking a 7% return and one seeking8 %, on a 6¼% basis after negotiation with customers and the Commission staff. The equity of Mississippi is over 40% of its total capitalization, which is relatively high for the industry. The settlement will require a restatement of the company's earnings for 1958 and 1959 and probably will reduce the $2.19 reported for the latter year to about $2.00.

This settlement is not an isolated case, although it represents one of the largest cases in terms of money involved to be approved by the commission in the past year. Among the other companies that have sought or obtained settlements are **Texas Eastern Transmission, Texas Gas Transmission, Tennessee Gas Transmission, Southern Natural Gas,** subsidiaries of **Peoples Gas Light & Coke,** and **Manufacturers Light, Heat and Power,** (a subsidiary of Columbia Gas).

A number of producer cases have been subject to a comparable procedure. Unhappily the larger cases pending before the Commission have not proven susceptible to this kind of negotiation. In any event it is only a stopgap. Eventually, the Commission must decide rate matters in a firm manner that will stand testing in the courts. The latter is especially true in the case of producer regulation.

In Conclusion

There is little else constructive to report from the regulatory arena. Questions involving retention by the shareholders of tax benefits from statutory depletion and intangible drilling costs continue to await court decision. The scope of the Commission's requirement to set rates for gas newly committed to interstate service rather than accept a contract between two parties is not resolved yet either, but the weight seems to favor a ceiling price based on comparable sales made in the area of the particular purchase. Legislation is desperately needed to overcome the confusion created by four years of contradictory court decisions.

A group of producers, pipeliners and distributors, called the "harmony committee" has been addressing itself to the wording of proposed legislation to amend the Gas Act for about two years. Recently at a meeting of the New York Society of Security Analysts a member of this committee stated that each group had by this time gained an awareness of the problems and outlook of the others and were quite close to "achieving a statesmanlike solution to the regulatory problem." If such a group with the backing of all segments of the industry can provide a recommendation for legislation, it will have made a major contribution toward the solution of a situation that is steadily deteriorating.

Regulatory Outlook — For the coming year the regulatory outlook continues to be one of very

slow progress. The dismissal of Commissioner Connole, and the prospect that the two recommended appointees to the Commission will not have their nominations acted upon, could leave only three Commissioners, plus, possibly two interim appointes; not exactly the type of situation designed to bring stability to the industry. It is not believed, however, that the recent hearings before the House Committee on Legislative Oversight (in which it suggested that industry people made improper approaches to the Commission) will have any important effect on pending cases.

In summary, sales prospects are bright but the earnings picture remains clouded. Many companies will -report rising earnings this year because of rates collected subject to refund.

In some cases the sizeable advances anticipated this year could be sufficient to cause speculative buying in the stocks. The word "speculative" is the key here, however, as these reports probably will not be indicative of true earning power. Not until the regulatory picture begins to clarify, can the securities of the natural gas industry hope for a resumption of their status as a prime quality investment. END

Struggle For World Domination On The Economic Front

(Continued from page 369)

details or evidence, should be taken with caution.

Soviet officials themselves acknowledge shortfalls in a number of critical industries. ►***They failed to meet their production goals in expansion of chemical manufacturing facilities. They fell short of production targets in some turbines and motors, petroleum equipment, chemicals, electric locomotives, natural gas, home-type radio sets and washing machines.***

Khrushchev, in the May 5 speech to the Supreme Soviet in which he first mentioned the downing of the American spy plane, offered his listeners a rosy prediction of the good life to come. He then made three specific economic pronouncements which appeared to have no relevance to the problem of achieving the Utopia which he conjured up for his audience.

Mr. K's Utopia

The three plans Mr. K announced were: (1) to introduce next January a new "heavy" ruble worth ten times the present ruble; (2) to shorten the work week; and (3) to reduce direct (income) taxes.

►**The New Ruble** — There has been no convincing explanation yet for this change. The best guess is that the move was made for psychological reasons — to increase the prestige value of Russia's monetary unit as compared to the dollar, and thus try to convince underdeveloped nations that Russia is gaining economic and financial ground against the West.

►**The plan to reduce the work week** for most urban workers from 48 to 41 hours may back-

fire. It may make more Soviet workers unhappy instead of pleasing them. With many workers paid at least in part on a piece work basis, a shorter week will mean less income for those who are not able to step up their production rate. Lacking many of the creature comforts and recreational opportunities enjoyed by Americans, the Soviet worker places much less value on additional leisure. He would rather increase his buying power.

►**The tax reduction gambit** must have been principally for foreign propaganda purposes. It will not fool many Russians. ***Basically, it raises take-home pay among lower paid workers, but leaves higher paid persons — those receiving 2,000 rubles and upwards per month — right where they were, because it cuts their gross pay by the amount of the tax reduction.***

The most grandiose economic schemes are, in the nature of things, limited by the labor supply. ***And the Soviet Union still suffers from a shortage of working-age males.*** These are the relevant figures:

	1939	1959
	(in millions)	
Population	170	208
Males	81	94
Females	88	114

►Moreover, compared to recent additions to the labor force averaging about three million young men per year, the increments in the next few years are expected to be only about one and one-half million annually.

This should hamper Soviet efforts to offset lower productivity per worker, as compared to the United States, by utilizing additional manpower.

►No consideration of ***Russia's capacity to wage economic warfare*** would be complete without some reference to the trade situation within the ***Sino-Soviet Communist bloc.*** The economic health of the bloc, as well as Russia's ability to manipulate it for her own ends, is a vital factor in the Red posture vis-a-vis the West.

The Soviet Union naturally is the dominant country in the bloc's trade. More than one-third of the foreign trade of the other partners in the bloc is with the Soviet Union.

►***In the case of Communist East Germany, almost 50 per cent of its foreign trade is with Russia. Approximately three-fifths of the trade of Romania and Bulgaria and about one-third of the commerce of Czechoslovakia, Hungary and Red China is with the Soviet Union.***

"There is no indication that the relative importance of the U.S.S.R. in the trade of the other members of the Sino-Soviet bloc will decrease in the next few years," according to the U. S. Department of Commerce.

► ***At the same time, there are indications that efforts to expand trade within the bloc are meeting with difficulties. The increase in intra-bloc trade in 1958 was only about four per cent over 1957, while trade between bloc and non-bloc countries was rising by ten per cent.***

►The U. S. Commerce Department reports "increasing evidence of greater trade coordination" within the bloc. It notes, too, that "since 1954 the bloc countries have embarked on a program of granting credits and technical assistance to underdeveloped countries, factors which will have a bearing on their trade with non-bloc countries in the years ahead."

The Soviet Union and the other bloc countries, operating state-controlled economies, ***are able to set arbitrary prices, without respect to cost,*** if other considerations warrant. This is presumed to give the Communists an edge in price competition with the Free World. However, according to some experts, this is true only in a limited sense.

►A report prepared for the Joint Economic Committee of Congress contends that "there are budgetary and planning restraints, as well as potential conflicts of interest, if such a practice is pursued on anything but a relatively small scale. Large scale price cutting or substantial rapid changes frequently involve an exhorbitant cost which even the Soviet Union is unwilling to absorb and may also interfere with plans in a costly way. Overriding political considerations may on occasion dictate substantial price manipulation or a sudden change, but these circumstances are rare."

►***Systematic price discrimination*** appears to have been practiced by the Soviet Union only in Eastern Europe. There are strong indications that the satellites and Communist China are not entirely happy about trade relations within the bloc but there appears little if anything they can do about it.

Back of Trade-and-Aid to Underdeveloped Countries

►The spearhead of the Soviet economic offensive against the West in the underdeveloped, or "backward," nations of the World is the "trade-and-aid" program which began in 1954. It is the most recent weapon in the Soviet arsenal aimed at weakening the economic and political prestige of the United States and the West.

► ***Soviet bloc trade-and-aid is used to try to create a favorable image of the Soviet Union, to reward friends and punish foes, to promote the ultimate aim of Communist World domination.***

From mid-1954 to mid-1959 Communist bloc agreements to aid non-Communist countries totaled about $2.7 billion, of which three-quarters was economic aid and the remainder military. The Soviet Union provided about 70 per cent of this total, Communist China roughly four per cent and the other bloc countries the remainder.

►***This Communist aid was far less than U. S. assistance to foreign countries during the same period.*** And much of the Red aid was in the form of long-term credits spread over a number of years, whereas the U.S. aid was completely on an annual budgeted basis.

This raises the obvious question of why the Communist "trade-and-aid" offensive should draw so much attention.

The principal reason is that the Communists achieve greater attention by selecting the most sensitive target areas to achieve maximum impact. American aid usually is designed to accomplish maximum good on basic but aften unspectacular projects over a long period of time.

The Soviet program usually is directed to more spectacular, if less fundamental, projects in order to secure maximum political effect at the time.

►The Soviet "trade-and-aid" offensive in underdeveloped countries is, of course, only one aspect of the continuing economic warfare against the West. But it is an important one in view of the intense nationalism in the newly independent countries of Asia and Africa which Communism seeks to exploit and pervert to its own ends.

►Soviet interest and activities in Africa and Latin America have increased. If the Russian economy can continue to sustain increased foreign aid, more maximum impact programs undoubtedly will develop in those two areas.

Basic Problems Faced by Russians

The foregoing summary of the principal factors in Russia's economic situation gives a general idea of the complexity of the problem with which Khrushchev and other Soviet leaders must deal as they pursue their prime objective—economic victory over the West.

Khrushchev's inherent difficulties are obvious. They would appear to have been compounded by events which forced him to abandon his "soft line" toward the United States and other Western powers.

But some of his advantages are equally obvious. And the Russians can be expected to exploit them to the fullest.

The possibility of military conflict between Russia and the U.S. cannot, of course, be excluded. But all indications are that the nuclear stalemate of terror, in which each side realizes that no one would really win an all-out war, will prove effective in keeping the peace — barring some serious miscalculation. *(Continued on next page)*

The fact that Khrushchev realizes he is on the weaker side of this stalemate is the best insurance against such a miscalculation on his part.

But the truly critical East-West battle—that on the economic front — will proceed with no quarter asked or given.

The West can forget this only at the peril of its own ultimate survival. END

Appraising The 2 Great Rail Mergers

(Continued from page 363)

Where Opposition to Mergers Will Come From

In fact, railroad mergers are so patently beneficial — not merely to the carriers directly involved, but to shippers and investors as well — that their infrequent occurrence should be a matter of public concern. It is understandable, of course, that vested interests likely to suffer from railroad mergers — employees being displaced, communities losing shops and offices, or being relegated to branch lines, and so on — will resist every such proposal. The greatest economy must always be derived ultimately from reductions in labor forces, railroading's heaviest expense, and unions pack considerable political influence. Just the same, it looks like the unions have often been short-sighted in holding on vociferously to individual trains and jobs at the cost of eventual total abandonment of branches, and even sometimes of entire railroads. The regulatory commissions, including the I. C. C., have also often had a negative attitude toward merger, and would seem to have neglected their broader responsibility to the public thereby.

But it is not fair to cast all of the blame for such slow merger progress upon outsiders. Each time a consolidation program is announced aggrieved railroads also join the ranks of the objectors, or seek to attach burdensome conditions to the union. To be sure, competing railroads will frequently suffer from successful mergers. Every railroad naturally long-hauls itself; if the Nickel Plate ties up with the Norfolk or Pennsylvania it will automatically divert traffic to them that it may have formerly turned over to the Lackawanna or Lehigh Valley at its Buffalo gateway. But this is certainly a normal hazard of business, and complaints on such a score should be regarded as frivolous. Better railroad statesmanship could also play its role in promoting the merger movement.

Some mergers have undoubtedly been blocked because large but financially distressed carriers have hesitated to join on unfavorable terms with smaller but more profitable roads. For example, New York Central is twice as long as Chesapeake & Ohio in route mileage and takes in nearly twice as much gross. Nevertheless, its all-important net income is only a small fraction of Chesapeake's healthy earnings. Despite the disparity in size between the two roads, Chesapeake would thus figure as the senior partner in any get-together. Pennsylvania stands in a similar relationship with Norfolk, although its position is made less embarrassing by its substantial stock interest in the latter. Of course, Central's or Pennsylvania's control of large traffic sources is an asset of potential value in a merger, but these roads can no longer count on any early improvement to reinforce their bargaining position.

The Future Trend

So much for the obstacles to railroad merger. The developments pointed out make it clear that more attention is going to be paid, from now on, to the opportunities inherent in such proposals. The movement is likely to become contagious and spread beyond the projects already under discussion. The creation of two huge northeastern systems will put the remaining unattached railroads — principally the Lehigh Valley and the Delaware & Hudson — into an increasingly difficult position. The Lehigh, facing the deprival of its western traffic connections, may have to tie up more closely with the Wabash or some of the Canadian roads at Buffalo. The D. & H. may regret its withdrawal from the Erie-Lackawanna union. Establishment of a unified New England system, now dormant, is likely to receive a new stimulus.

In other parts of the country the carriers may be less directly affected by the indicated New York Central and Pennsylvania aggrandizement, but the consummation of mergers on this scale would certainly set a universally powerful example. Besides other projects mentioned at the beginning of the article, **Great Northern-Northern Pacific-Burlington, Rock Island-Milwaukee, Chicago & Northwestern-Minneapolis & St. Louis** and **Frisco-Katy** are all logical merger candidates.

Of course, the two major combinations, New York Central, C. & O., B. & O. and Pennsylvania, Norfolk & Western and Nickel Plate, are not likely to be consummated tomorrow. Protracted negotiations, hearings and objections are an unavoidable prelude. And the epoch when all of the country's railroads will be combined into a dozen regional systems is still in the future. Nevertheless, the merger idea has received very strong impetus in the events of the past several weeks, and more progress in this direction is likely to be seen within the next two years than during the past two decades. END

Competitive Struggle Forces Distillers Into Other Fields

(Continued from page 378)

and one of four principal U.S. producers of whiskey and gin, distributes an estimated 85 per cent of output in this country. Growing demand for Canadian and Scotch whiskey is contributing to modest improvement in sales in spite of a shrinkage in sales of blends in this country. Net profit for fiscal 1960 ending August 31 is expected to range above $2.80 a share, compared with $2.76 for 1959.

American Distilling, one of the larger independent distillers, has concentrated on popular-priced lines and has fared well. Earnings have shown steady improvement for some seven years. For fiscal 1960 ending September 30 net profit should set a new high above last year's $4.12 a share. Dividends are expected to be maintained at the $1.60 annual rate. Possibility of a year-end extra has been intimated.

Brown-Forman Distillers has concentrated on straight and bonded bourbons and produces a line of gins, liquors and vodkas. Scotch whiskey and some French and German wines are imported. Diversification on a small scale has been undertaken in photographic chemicals. Net profit for the fiscal year ended April 30 is estimated to have ranged moderately above 93 cents a share for 1959 (adjusted for the 200 per cent distribution in non-voting stock paid last year). Dividends are expected to hold at the indicated 40-cent annual rate.

Publicker Industries produces, in addition to alcoholic beverages, considerable quantities of industrial alcohol and related chemicals. Favorable costs of raw materials hold promise of aiding earnings this year and net profit for calendar 1960 may register moderate improvement over 1959, when a total of 61 cents a share was reported. Dividends are likely to be restricted to stock payments, such as 5 per cent paid last year. END

First-Hand Regional Survey Of The 12 Federal Reserve Areas

(Continued from page 355)

levels of inventories.

► Farm prices firmed in March, but despite this improvement, farm prices are lower than a year ago and this is reflected in smaller income that farmers received from marketings during January and February of 1960.

While the Twelfth District continues to be a leader in economic growth, there are signs of soft spots and certainly boom conditions do not exist. END

For Profit and Income

(Continued from page 381)

reached a new 1959-1960 high of 19⅛ and is currently at 17¾, or around 12.2 times earnings. Its earlier postwar high was 35⅛ in 1952.

Diamond Alkali

This well-established producer of alkalis has expanded into upgraded lines, including plastic, organic and chromium chemicals. It has a fair back record. Profit rose to a record $3.90 a share last year, from 1958's $2.32, modestly exceeding the previous peak of $3.83 in 1956. It might reach the area of $4.40 this year. Dividends are at $1.80, plus a 3% stock extra late in 1959. At 57 in a 1959-1960 range of 64⅞-46, performance of the stock is better than that of the chemical group and the price-earnings ratio is around 13, amounting to a moderate and reasonable valuation.

Tennessee Corp.

This company makes fertilizer materials, sulphuric acid, copper-based and sulphur-based chemicals, and other items. Despite the uninspiring outlook in the fertilizer field, it has fared fairly well. Earnings have shown substantial, even though somewhat irregular, growth for some years. They rose to a record $2.60 a share last year, from 1958's $1.74 (adjusted for a 2-for-1 split), gained about 26% in the first quarter and might approximate $3.20 for 1960. At 40, off from high of 47, the stock's price-earnings ratio is a little under 13. Total dividends are indicated at $1.37½ ($1.25 regular) on the present split shares. Payments have risen in each year since 1951 with the exception of an unchanged rate in 1958. The stock is reasonably priced as chemical issues go, and the continuing growth trend in earnings should provide basis for longer-range appreciation.

American Optical

A leading maker of optical products, this company also produces scientific and medical instruments. Earnings are showing substantial growth, with something like $3.90 to $4.10 possible this year, against 1959's record $3.55. Dividends are at a $2.00 rate. Recent increased interest in and demand for the stock is attributed to the company's apparent good position in, and nearing commercial output of, "fiber optics." These are flexible "ropes" of fine glass threads which carry light and images, permitting inspection of interior portions of machinery or other objects. Possible applications appear broad. Now at 56,

the stock is selling around 14 times established earning power and yields nearly 3.6%. If this price carries a premium for unpredictable possibilities in fiber optics, it appears to be a modest one — nothing like the financial valuations of many stocks variously classified as "science" issues, or "wonder" stocks, or "imagination" stocks. This stock can be rated as a fairly good value and not unduly risky, without regard to fiber optics, and as a speculation on possibilities in the latter field. END

Answers to Inquiries

(Continued from page 379)

over the long term.

Minnesota Mining & Manufacturing Co. makes various Scotch type pressure sensitive tapes; coated abrasives; adhesives, coatings, electrical products, graphic products, some building products and also some chemicals and plastics. Its research division is constantly developing new products with good sales and profit potentials and the company is also active in acquisitions and expanding the business both domestically and abroad.

Earnings for the first quarter of 1960 were 32 cents per share against 27 cents in the like period last year. Full year 1959 earnings were $1.25 per share compared with 86 cents in 1958. These earnings figures were adjusted on the shares outstanding prior to the 3 for 1 stock split effective on June 10, 1960.

Stocks usually advance somewhat on the announcement of a proposed stock split but very often after the split is effected, some profit-taking ensues and the shares often react. This situation has to be watched closely for that reason.

Research expenditures are quite substantial but profit margins on the company's products are considered good on the average and growth rate should continue exceptional.

Continental Baking

"I understand that the baking industry is highly competitive and profit margins are usually very narrow but I am interested in Continental Baking and would like to receive latest earnings and other pertinent data regarding the company".

S. R., Nashville, Tennessee

Continental Baking Co. is the largest factor in the bread and cake baking industry. The company operates bakeries in 29 states and in Washington, D. C. Its Wonder and Hostess brands are well advertised in the bread and cake fields. Through subsidiaries it manufactures potato chips, mayonnaise and snack items and its Morton Packing Co. division is an important producer of frozen meat and fruit pies.

For the 13 weeks to March 26, 1960 net sales were $96,516,011 and net profit $1,450,552 equal to 68 cents per share. This compares with 13 weeks to March 28, 1959 when net sales were $93,204,732 and net profit $1.959,235 equal to 96 cents per share. Full year 1959 earnings were $4.60 per share compared with $4.37 in 1958 and $4.62 in 1957. The 55 cent quarterly dividend yields a good income return.

The Federal Trade Commission announced on May 19 that Continental Baking Co. had illegally absorbed baking companies throughout the country in the past 8 years and thus may gain a monopoly because of these acquisitions. The charges are based on the Federal anti-trust laws and if the Government is upheld in its complaint, after hearings, the F.T.C. could order company to dispose of some or all of the bakeries involved. The company has denied charges and said it intends to defend all acquisitions. Each purchase was carefully considered at the time by the company attorneys in the light of Federal Trade Commission requirements and the company says full information was made available to the Commission. Continental stated that there is no possibility of it or any other baking company controlling more than a fraction of the $6 billion a year baking business.

Continental Baking Co. announced that its expansion program has been completed at a cost of $2 million and this has doubled the size of its Davenport, Iowa plant.

Continental Baking's record in its field is better than average as competition is intense and profit margins narrow.

This is a relatively stable issue with its attraction mainly for good income return.

Tung-Sol Electric

"I became interested in Tung-Sol Electric about six months ago when I saw a paragraph of comments on the company in your magazine. As I am still interested, please advise on recent earnings, dividends and outlook".

C. E., Chicago, Illinois

Tung-Sol Electric produces vacuum tubes for radio, television and other electronic applications and is also a small incandescent lamp manufacturer and also produces sealed beam headlights; the company is diversifying and expanding operations and its cold cathode tube enhances longer term prospects.

Recent annual earnings were $2.70 per share in 1959, compared with $2.67 in 1958 and $3.31 in 1957.

For the 13 weeks to April 2, 1960 net sales were $20,008,795 and net profit $796,627 equal to 80 cents per common share based on 924,521 shares outstanding. This compares with the 13 weeks to March 28, 1959 when net sales were $17,613,971, net profit $770,-923 equal to 78 cents per common share based on 906,747 shares outstanding.

The full year of 1960 is expected to show a gain in sales due to new products and increased volume on semi-conductor and other electronic products. The backlog of orders on the books recently showed an increase.

Current quarterly dividend is 35 cents per share and the indicated dividend yield is quite modest. The shares warrant retention. END

The Trend Of Events

(Continued from page 348)

about six weeks. By that time the Labor moguls will be trekking to the political conventions, adding up to further postponement, perhaps final abandonment.

Since Mr. Meany originally proposed the conference, he is duty bound to meet and deal with the other side without consideration for the "status" of those who sit across the table from him. And as

a good citizen, interested in the welfare of AFL-CIO membership along with the welfare and interests of the entire country, he should forget his "peeve" that the "other side of the table" lacks —in his opinion — management status comparable to his in the field of organized labor.

It is tragic to think of a future steel strike, a strike of the Auto Workers, disruptions of transportation and communications. It is time for reasonable men from both sides of the fence to sit down together and work out the formula to avert these industrial debacles.

Admittedly, we do not have that formula, but we do assert that if Messrs. Meany, Reuther and Harrison are sincere in their desire to produce such a formula, they will sit down with any group of successful business executives, regardless of their relative stature, and bring that formula to a reality, thus assuring the national economy of a long, long era of industrial peace. END

As I See It!

(Continued from page 349)

deliveries, increased retail sales and generally expanding demand. ***On the other hand, rising gold and foreign exchange reserves are a source of embarrassment for the German authorities and one of aggravation for those countries from which these funds flow.***

The unique measures instituted with the discount rate hike to prevent a further inflow of short term or "hot" funds were a BAN ON THE SALE OF GERMAN TREASURY BILLS AND BONDS TO NON-RESIDENTS and the CESSATION OF INTEREST PAYMENTS ON NON-RESIDENT BANK ACCOUNTS.

Here again, the external repercussions of a rise in the discount rate were being offset, this time by direct moves limiting the international effects of the discount rate per se.

►**THE EFFECTS** of the Central Bank actions on both sides of the Atlantic and the accompanying measures — in the case of the *U.S., indirect,* in that of *West Germany, direct* — are not immediately evident, and no conclusions as to their success can as yet be drawn. But at least, there is a hint of innovations, and a trend towards more utilization of the discount rate as a domestic and almost purely psychological tool, while limiting conflicting external effects with other procedures, — is apparent in the monetary winds. END

How Long Will Summer Rise Last?

(Continued from page 351)

spending on the part of industry is headed for some contraction and if the public continues relatively apathetic, the prospect of a better - than - seasonal upsurge seems remote.

Consumer Spending — It is interesting, for example, to note that government figures disclose a greater than usual setback in consumer spending for last month.

Employment—Further improvement in employment shown in the monthly tabulation was a favorable factor, but unless workers are more anxious to spend their paychecks business activity may remain on the slow side.

In Conclusion

Financial markets had the advantage of technical factors in one of the widest advances in percentage gains in the last two weeks. Two interesting conclusions can be drawn from the vigorous advance: (1) Funds are not lacking for purchases of stocks, either for investment or for speculation, in spite of relatively high interest rates and restrictive 90 per cent margin requirements, and (2) characteristics of the swift resurgence appear to reflect speculative actions rather than investment accumulation in anticipation of a prolonged business recovery. In short, the market has been rebounding from a patently oversold position. Sustained recoveries seldom begin with such vigor.

Unless some unexpected international event appears on the horizon, the summer advance appears to have the momentum to endure for another three to five weeks. Approach of mid-year financial statements in late July, many of which are destined to make painful comparisons with a year earlier, could provide the background for reactionary tendencies. — Monday, June 13.

Book Review

An Approach to Sanity

By FIELD-MARSHAL MONTGOMERY

In the brief time that has elapsed since Viscount Montgomery's retirement from his post as Deputy Supreme Allied Commander in Europe, he has played a considerable part in influencing current opinion on world affairs. The question of the relations between East and West is the great issue that confronts the world today, and it is toward a sane and satisfying solution of that tremendous problem that Lord Montgomery has directed his thoughts. His views are based firmly upon the knowledge and unrivaled experience acquired in the course of ten arduous years in the defense organization of NATO — years in which he met the political and military leaders of a great many countries.

A whole-hearted believer in what might be termed the technique of the direct approach, "the getting together" at the highest level of the few leaders actually responsible for the mighty issues of peace or war. Lord Montgomery was an active supporter of Prime Minister Macmillan's mission to Moscow and later he himself visited Mr. Khrushchev in the Kremlin.

During the long-drawn-out and fruitless Conference of Foreign Ministers at Geneva, Lord Montgomery delivered at the University of Oxford two Chichele Lectures on the conflict between East and West, and the actual text of these lectures and of the articles contributed to *The Sunday Times* of London on international affairs is incorporated in the present volume as a permanent record of his views.

The World Publishing Co. $2.75

Are Your Securities

OUT OF LINE

— with Investment-Business Prospects? — With Your Own Aims?

Some of the securities you own may have been a good buy when you acquired them ... but may be a better sale today.

We have never advocated continuous switching of issues—but the *conservative investor should be the first* to replace any securities which, through change, no longer measure up to the standards of quality, income or growth he wants to maintain in his portfolio.

Never before has there been such an avalanche of new products, "special use" materials, new techniques — with activities ranging from the ocean depths to outer space. Certainly this is no time for a "do nothing" investment policy.

It is the function of Investment Management Service, through careful, well-timed recommendations, to *place* and *keep* your investments *"in line"* with the march of scientific achievement, industrial advancement and investment opportunity.

Expert Analysis of Your Present Holdings:

Our first step in serving you is to make a detailed report—analyzing your entire list—taking into consideration income, safety, diversification, enhancement probabilities—today's factors and tomorrow's outlook.

Issues to Hold and Advantageous Revisions:

Definite counsel is given on each issue in your account ... advising retention of those most attractive for income and growth ... preventing sale of those now thoroughly liquidated and likely to improve. We will point out unfavorable or overpriced securities and make substitute recommendations in companies with unusually promising 1960 prospects and longer term profit potentials.

Close Continuous Supervision of All Holdings:

Thereafter—your securities are held under the constant observation of a trained, experienced Account Executive. Working closely with the Directing Board, he takes the initiative in advising you continuously as to the position of your holdings. It is never necessary for you to consult us.

When changes are recommended, precise instructions as to why to sell or buy are given, together with counsel as to the prices at which to act. Alert counsel by first class mail or air mail and by telegraph relieves you of any doubt concerning your investments.

Complete Consultation Privileges:

You can consult us on any special investment problem you may face. Our contacts and original research sometimes offer you aid not obtainable elsewhere—to help you to save—to make money.

Help in Minimizing Your Taxes:

We keep in mind the tax consequences of each transaction and help you to minimize your tax liability. (Our annual fee is allowed as a deduction from your income for Federal Income Tax purposes, considerably reducing the net cost to you.)

Annual Personal Progress Reports:

Throughout the year we keep a complete record of each transaction as you follow our advice. At the end of your annual enrollment you receive our audit of the progress of your account showing just how it has grown in value and the amounts of income it has produced for you.

To investors with $40,000 or more we shall be glad to send full information on Investment Management Service. Our annual fee is based on the current value of the securities and cash to be supervised—so if you will tell us the present worth of your holdings or list them for our evaluation—we shall quote an exact fee—and answer any questions as to how our counsel can benefit you.

INVESTMENT MANAGEMENT SERVICE

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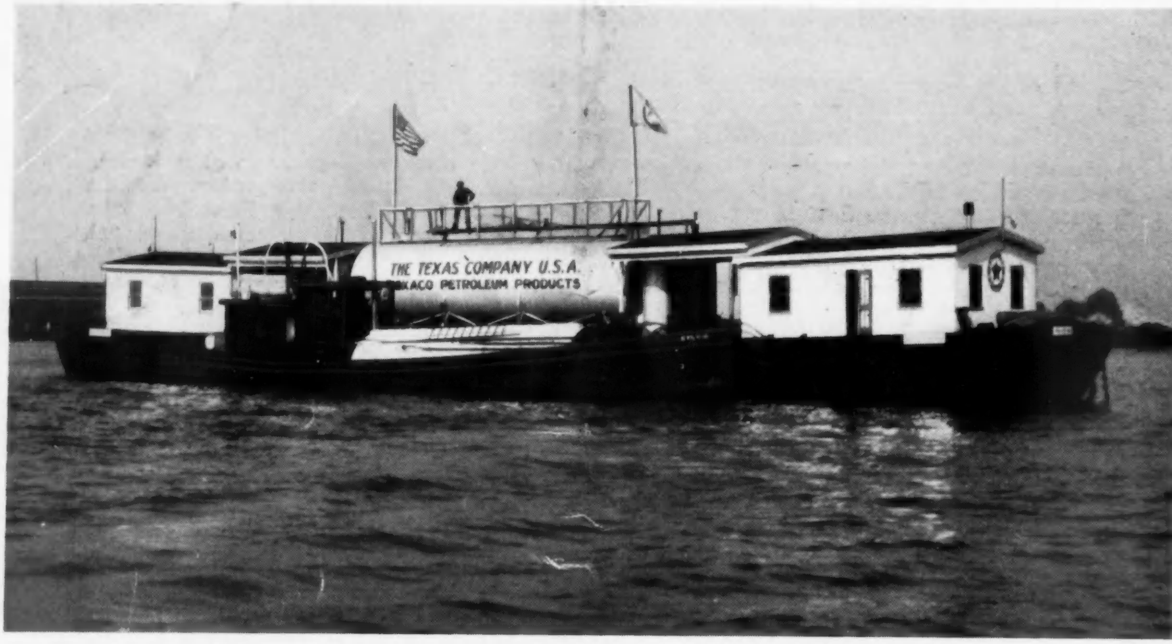
/S ON TEXACO PROGRESS

From coastal to global operations



YESTERDAY—Shortly after its founding in 1902, Texaco had only one, small, wooden barge—transporting crude oil slowly along the Gulf Coast and up the Mississippi. Its capacity was 170,000 gallons.

TODAY—Texaco's giant steel tankers, like the Trinidad, ply the sea lanes of the free world, carrying up to 13-million gallons. This fleet forms part of a vast transportation network that helps keep the economy of the free world in balance. Continued Texaco growth, national and global, makes this possible.

TEXACO

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